

FY 1997

Taxpayer Advocate's Annual Report to Congress

This is the second annual report by the Taxpayer Advocate to the House Ways and Means and the Senate Finance Committees is mandated by §101(a) of the Taxpayer Bill of Rights 2 (Public Law 104-168), enacted on July 30, 1996



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TAXPAYER ADVOCATE'S ANNUAL REPORT TO CONGRESS FOR FISCAL YEAR (FY) 1997

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FOREWORD

This is the second time in which I have had the opportunity to report to the Congress on the most serious problems encountered by taxpayers in dealing with the Internal Revenue Service (IRS). In last year's report, we primarily relied on data provided by the Problem Resolution management information system, a database which tracks Problem Resolution casework and sorts taxpayer problems into 55 categories. This year, however, I also initiated a series of focus groups with individual and small business taxpayers to obtain their thoughts on concerns they have with the IRS and the current tax system. We conducted ten focus groups; five each with individual and small business taxpayers. As reported last year and confirmed by the focus groups, complexity of the tax code and the resulting difficulty encountered by taxpayers in preparing their returns remains the number one concern of taxpayers.

This should come as no surprise to anyone, particularly since the changes added to the Internal Revenue Code (IRC) this year significantly added to that complexity. Complexity, of course, has been cited in my previous reports to the Congress and is often cited by members of Congress in their efforts to improve an overburdened tax system. Although the goal of simplifying the present IRC is a much discussed topic of conversation and seemingly is much desired by the American public, it is readily apparent that it is easier to talk about simplification of the system than it is to achieve it. The debate over the need for a new and improved system goes on as proponents of a "flat tax" argue their position with those who would advocate a national sales tax. Others would retain the progressive nature of the current system, but would eliminate many of the deductions and tax credits that have crept into the system over the years.

Proposals

Where does this leave us? Basically, the result to date has been much talk about the need to simplify the system but with little action in that direction. While the discussion continues, our tax system continues to grow in complexity. I had previously proposed, in my last report and in subsequent testimony to the IRS Oversight Subcommittee of the House Ways and Means, that a measure or burden index be developed in order to score burden in the same manner as revenue when new tax law changes are being considered. I was heartened to see the National Commission on Restructuring the IRS propose a study of this provision in their report. While this would not necessarily prevent a law from being enacted, the "scoring" of burden would ensure a more complete discussion of the provision and that full consideration is given to any additional burden that would be placed on the public as a result of that law.

I also would urge that the Congress and the Administration jointly establish a bipartisan National Commission, similar to the IRS Restructuring Commission, with the purpose being to conduct a serious study of the current tax system. This study could include a full discussion of other proposals under consideration. The focus of the study would be to achieve a national dialogue on this issue by individuals with a sincere interest in fixing or modifying the nation's tax system, a process that may take as long

as two years to complete. Regardless of the time requirements, I feel it is time to engage in a serious discussion on this topic rather than merely using it as a continuing campaign theme. It's a topic that impacts almost every resident of this country and deserves our immediate attention.

Lee Monks,
Taxpayer Advocate

HIGHLIGHTS OF THE TAXPAYER ADVOCATE REPORT TO THE CONGRESS

The following is a brief summary of each section of the Taxpayer Advocate's Report to the Congress highlighting the primary activity of the Office of the Taxpayer Advocate:

Foreword: A discussion on the complexity of the Tax Code with proposals for addressing complexity.

Program Overview/Problem Resolution Organization: This section provides an overview of the Problem Resolution Program (PRP), including the objectives and criteria for the program. Also included is a breakdown of the staffing allocated to the program and a nationwide listing of the addresses and phone numbers for all field Taxpayer Advocates (located in the appendices).

Program Support: This section covers information on Taxpayer Assistance Order (TAO) activity on hardship cases, including a summary of the source and disposition of TAO casework. Also contained in this area of the report is a listing of the top ten sources of PRP casework.

The Most Serious Problems Facing Taxpayers: A listing of the most serious problems facing taxpayers and actions being taken by IRS in dealing with those issues is discussed in this portion of the report. Feedback received from focus groups conducted with small business and individual taxpayers is also discussed in this portion of the report.

Taxpayer Advocate Actions: This section of the report summarizes a wide variety of advocacy initiatives undertaken by the Office of the Taxpayer Advocate and by local field offices. This includes administrative proposals as a result of headquarters activity and recommendations received by the Taxpayer Advocate as a result of projects undertaken by Regional Advocacy Councils across the country.

In addition, this section of the report outlines a number of legislative proposals made by the Taxpayer Advocate which are designed to improve operational processes within the Internal Revenue Service and procedures or provisions established by law that may be causing undue burden or inequities for taxpayers.

Other Taxpayer Advocate Activities: Outlined in this area of the report are initiatives dealing with the PRP Quality Review program and efforts that have been undertaken to upgrade the status of field Taxpayer Advocates.

INTRODUCTION

This report by the Taxpayer Advocate to the House Ways and Means and Senate Finance Committees is required by Public Law 104-168, Taxpayer Bill of Rights 2 (TBOR2), Title I, Section 101 enacted on July 30, 1996.

PROGRAM OVERVIEW

The Problem Resolution Program (PRP) was founded in 1976 as part of the Taxpayer Service organization and was reorganized as a separate organizational component the following year. Initially, Problem Resolution Officer (PRO) positions were established only at the Internal Revenue Service's district offices. Soon afterwards, IRS recognized that many of the taxpayer problems that reached district PRP offices related to service center operations and in 1979, the program was expanded and PROs were established in each of the service centers. In districts and service centers, the PRO is a member of the Director's immediate staff.

In late 1979, the Taxpayer Ombudsman, an executive level position on the Commissioner's immediate staff, was created to head the PRP organization and to provide greater authority and visibility to PRP both inside and outside the IRS. In 1980, Regional PRO positions were established on the immediate staffs of each Regional Commissioner to provide program oversight and assistance to the PROs in district and service center operations.

In FY 1996, the IRS reorganized and consolidated its regional and district offices. During that year the Service reduced its field operations from seven to four regions and from 63 to 33 districts. Prior to approving district reorganization the Commissioner made the decision to support the Taxpayer Advocate's recommendation that IRS retain PRO positions in all 63 former district offices. This ensured that each former district location, at least one per state, would maintain a local PRP contact, now designated as an Associate Taxpayer Advocate, for continued liaison with taxpayers, local congressional offices, and the tax practitioner community. In December 1997, in response to Congressional concerns about the adequacy of PRP staffing and to assist in dealing with additional casework, the Acting Commissioner approved a recommendation by the Taxpayer Advocate to increase the staffing in the Associate Districts to a minimum of two positions for each location.

In 1996 as stipulated by TBOR2, the newly created position of Taxpayer Advocate (TA) and the Office of the Taxpayer Advocate replaced the Taxpayer Ombudsman position and the Headquarters PRP staff. This change enhanced the authority of the position and expanded the office's scope and responsibility. This position change and the assumption of additional duties was also adopted in our regional and field offices.

During 1997 in recognition of the increasing scope and wide range of responsibility of field taxpayer advocates the Taxpayer Advocate's Office developed a new job description which supported upgrading these positions in districts and service centers where appropriate. This classification has placed the local TAs on a par with mid/top level organization managers and emphasizes the importance placed on taxpayer advocacy by the Service.

Since its inception, the goal of PRP has been to assist taxpayers who could not get their problems resolved through normal IRS channels or who were suffering significant hardships. During FY 1997, PRP effectively resolved more than 237,103 PRP cases and received requests for assistance on 30,018 potential hardship cases.

During the past four years a greater awareness has developed within the Service and PRP regarding the need to focus attention on not just resolving taxpayer problems but looking at the root causes of these problems. PRP has worked hard to pinpoint and correct system deficiencies that may be contributing to taxpayer problems. As a result, the primary goals of PRP are to first assist the taxpayer with his or her immediate problem, and then to work with functional management to determine the primary sources or underlying causes of major problem areas in order to improve the performance of IRS systems and prevent the occurrence of similar problems.

TBOR2, through the Taxpayer Advocate's reports to Congress, has enhanced the authority of the TA to ensure that IRS gives appropriate attention to the underlying causes of taxpayer problems and that responsible IRS officials give full consideration to and formally respond to the TA's recommendations to improve customer service and IRS responsiveness.

At the end of FY 1997, the TA proposed and administratively was given the authority to issue **Taxpayer Advocate Directives (TADs)**. These directives will enable the TA to require a Service functional area to take specific action that the TA determines is necessary to protect the rights of taxpayers, prevent undue burden, or ensure equitable treatment. The TA's staff is currently preparing implementing procedures for the use of the TAD. TADs which will enable the TA to provide relief to a group of taxpayers (or all taxpayers) similar to the authority granted to TAs to issue TAOs to grant relief to individual taxpayers.

TBOR2 required the establishment of internal procedures, now referred to as the "Commissioner's Reporting & Tracking System," for ensuring a formal IRS response from a designated responsible official within three months to all TA recommendations. It also requires the TA to make an annual report directly to the Congress on the office's activities for the past year, including a summary of the actions taken to implement recommendations and to address the most serious problems faced by taxpayers. During FY 1997, the TA submitted 18 recommendations to improve the performance of

operational systems and assist taxpayer interactions with the Service. (See the section entitled Taxpayer Advocate Administrative Recommendations for more detail).

PROBLEM RESOLUTION PROGRAM (PRP) ORGANIZATION

The Office of the Taxpayer Advocate is represented at the national, regional, service center, and local district office levels. For FY 1998, 442 positions are authorized for the program. A breakdown of the distribution of those positions is as follows:

National Office:	27
Northeast Region:	74
Southeast Region:	85
Midstates Region:	69
Western Region:	77
Service Center Operations	107
International Operations	3

These 442 positions include the district and service center TAs and their immediate staffs. Field Advocates are responsible for management of the PRP program at the local level. This includes reviewing casework, ensuring the training of caseworkers, dealing with sensitive individual cases, pursuing advocacy initiatives and personally handling Applications for Taxpayer Assistance Orders (ATAOs). In addition to the 442 positions directly authorized for PRP, more than 1000 other field employees are involved in working PRP cases, on either a full-time or part-time basis. These workers handle most of the direct contacts with taxpayers and research and resolve the specific cases. Such caseworkers are funded by their parent organizations (e.g., Collection, Customer Service).

The 442 TA and staff positions are distributed according to a staffing model, which accommodates a limited number of fixed items (e.g., the TA positions themselves and positions for engaging in advocacy projects), then allocates the remaining available resources according to caseload volume. The number of positions devoted to the casework itself, by design, will fluctuate from year to year, depending on the volume of incoming workload. The single imperative is that all cases will be worked, which means that district and service center directors are committed to shifting their employees into or out of PRP-related casework in reaction to everchanging workload demands.

While regional and field TAs report to the local head of office, program direction and guidance is provided to the field by the headquarters staff of the TA through each Regional Commissioner and the Executive Officer for Service Center Operations. This establishes a joint accountability for the program at each level of operation, including

timely identification of cases which meet PRP criteria, the proper and timely resolution of these cases, and analysis of factors contributing to taxpayer problems.

The criteria by which cases are brought into PRP are:

- Any contact on the same issue at least 30 days after an initial inquiry or complaint.
- No response by date promised, including commitments made by IRS.
- Any contact that indicates established systems have failed to resolve the taxpayer's problem: or when it is in the best interest of the taxpayer or the Service.

A comprehensive directory of all Taxpayer Advocates is provided in Appendix A.

PROGRAM SUPPORT

COMMUNICATION

To effectively represent taxpayers within the IRS, the Taxpayer Advocate must clearly provide options that can and will operate independently and in taxpayers' best interests. Through casework, reports to Congress, advocacy initiatives, and other tools, the TA, both at the national and local level, must continue to demonstrate full independence inside the organization and earn the trust and confidence of taxpayers that their problems will be resolved fairly and independently. For the TA to be effective, that individual must operate as an independent voice for the taxpayer within the Service and to be able to make appropriate recommendations for improving IRS systems and processes that do not work properly or have unintended negative consequences for taxpayers. This requires both an acceptance and understanding of the role the Problem Resolution Program plays within the organization. Each Advocate must ensure that the general public is fully aware of the availability of the program and has the capability to gain access to it when the need arises.

As an ongoing activity to enhance awareness, the Taxpayer Advocate and field TAs have made numerous speeches to various practitioner groups and at IRS sponsored symposiums for tax preparers over the past several years, to discuss the changes and enhancements to PRP and his position as a result of TBOR 2 legislation. The TA has also asked for direct feedback from these groups as part of the process to identify the most significant problems affecting taxpayers in their dealings with the IRS.

In late 1993, the Taxpayer Advocate's organization conducted a series of focus groups on the service offered by PRP. The information obtained was extremely useful in modifying our program practices and quality review program focus, but it did not offer any significant new insight into the problems taxpayers were experiencing with the IRS. In 1997 another series of focus group interviews in conjunction with our Strategic Planning Division were initiated to gather data from both individual and small business taxpayers on the types of problems they encounter in their dealing with the IRS. The results of this effort are included in the section dealing with the Most Serious Problems Facing Taxpayers.

Communication and outreach efforts continue to be high priority items and the Taxpayer Advocate is pursuing several ways to improve communication to and with taxpayers. These include:

- A Taxpayer Advocate's site on the IRS' Internet Home Page that contains information about PRP, including Form 911, Application for Taxpayer Assistance Order, that can be downloaded and information about how to contact local Taxpayer Advocates. Site content will continue to grow and evolve.

- Local telephone directories, nationwide, are being updated to include direct telephone numbers for the local Taxpayer Advocate offices. In addition, Forms 911 are being incorporated into appropriate IRS publications and notices.
- Development of a process by which Taxpayer Advocates and Regional Advocacy Councils nationwide can share information regarding advocacy efforts and best practices using IRS's own Intranet.
- A task force, recently formed, to consider all aspects of training related to PRP and the TA. This group has made a number of recommendations to enhance training and communication regarding taxpayer rights and customer service throughout the Service. The group and several subgroups will continue to develop several training and communication products geared toward improving the way IRS employees interact with taxpayers.
- The TA has also formed a task group to assist in developing greater public awareness of the availability of PRP to assist them in the resolution of their problems.

A message, made clear by the events of the last year, is that there are differing perceptions of the mission of the IRS held by the Congress, the public, and the IRS itself. It is clearly in the best interest of taxpayers and the IRS to clarify and better communicate these issues. It is also clear that PRP will play a critical role in enhancing understanding of that mission through continuing education of taxpayers and other stakeholders and through their efforts to assist taxpayers in the resolution of their problems.

TAXPAYER ASSISTANCE ORDERS (TAOs)

In 1988, the Omnibus Taxpayer Bill of Rights (TBOR) expanded PRP's ability to assist taxpayers by providing statutory authority under Internal Revenue Code (IRC) section 7811 for the Taxpayer Ombudsman or his designees and the Problem Resolution Officers to issue a TAO. A TAO may be issued when necessary to relieve an imminent, significant hardship as a result of the manner in which the tax laws are being administered.

The original statute authorized issuance of a TAO to require the release of property from levy or to cease or refrain from taking actions in certain situations. In 1989, the Commissioner administratively expanded TAO authority to include relief of hardship in situations beyond those specified in the law. TBOR2 included this expanded authority and also allowed the Taxpayer Advocate to specify in a TAO a time period by which the ordered actions must be completed.

During FY 1997, 30,018 Applications for Taxpayer Assistance Order (TAO) were processed. Taxpayers were granted relief or appropriate assistance was otherwise provided in 76.2% of these cases. Only two cases required an enforced TAO (one in Western Region and the other in Northeast Region), in which TAs formally exerted their statutory authority to order relief for the taxpayer. It should be noted that an enforced TAO is only required when the local TA and functional area with responsibility for the administrative action cannot reach agreement on case resolution.

TAO PROGRAM ACTIVITY FY 1997

ASSISTANCE PROVIDED TO TAXPAYER

	Volume	Percentage
TAO Resolved (Voluntarily)	13,750	45.8
PRP Case Initiated	2,143	7.1
Referred to Function for Resolution	3,205	10.7
Resolved by the PRO Without TAO	1,157	3.9
Relief Provided Before TAO Issued	2,593	8.7
Enforced TAO	2	*
Subtotal	22,850	76.2

OTHER

Relief Not Appropriate	4,962	16.5
Law Prevents Relief	1,153	3.8
No Action Required(did not meet criteria)	1,053	3.5
Subtotal	7,168	23.8

TOTAL	30,018	100%
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* Less than 0.1%

Assistance could not be provided in 23.8% of the applications because:

- Relief requested was not appropriate (16.5%)
- The law itself prevented the Service from providing relief (3.8%)
- The ATA0 did not meet significant hardship criteria (3.5%)

The breakdown by issues of the total ATA0s processed in Fiscal Year 1997 is

- Collection Related Issues 47.1%
- Examination Related Issues 3.2%
- Tax Refund Issues 28.5%
- Processing Issues 4.7%

- Other Issues 16.5%

Relief may be determined to be inappropriate when the remedy the taxpayer is seeking is not justifiable e.g., when a taxpayer requests abatement of an additional tax assessment but does not provide supporting documentation to justify the abatement; or when granting a request for release of levy would jeopardize ultimate payment of the tax if the taxpayer has neglected or refused to make other arrangements with the Service to resolve his or her delinquency. The largest volume of TAO cases for FY 1997 where the law prevented the Service from providing relief was in the category dealing with the offset of overpayments (refunds) to other liabilities, e.g., defaulted student loans, child support payments, etc. (IRC section 6402(a)).

SOURCES OF FY 1997 PRP CASEWORK

In January 1995, the Taxpayer Advocate initiated a change in the coding process for each case meeting PRP or ATAO criteria; identifying each case by type of issue with a three digit major issue code (MIC). Data compiled by MIC can provide information on the primary sources or causes of the taxpayer problems in order to correct systems deficiencies, address unfair treatment of taxpayers, reduce program cycle time, and to improve customer service.

The Problem Resolution Office Management Information System (PROMIS) provides a nationwide database of the categories of problems experienced by taxpayers, which in turn facilitates the collection and analysis of the causes and sources of those problems.

The most recent analysis of closed PRP/ATAO cases provided:

- A picture of the vital few issues involved in a significant portion of PRP/ATAO casework throughout the IRS,
- A comparison of casework by MIC for FY 1997 and FY 1996,
- A breakdown of MICs by IRS function with primary oversight, and
- MICs by centers, regions and districts, and for the Assistant Commissioner (International).

Analysis indicated that the top ten sources of PRP casework by volume for FY 1997 (which accounted for 58% of all PRP closures) were:

1. Audit Reconsiderations
2. Penalties Other Than Federal Tax Deposit (FTD) Penalties (e.g., estimated or failure to file)
3. Refund Inquiries/Requests
4. Processing Claims/Amended Returns
5. Lost/Misapplied Payments

6. Processing Individual Returns
7. Notice Process
8. Revenue Protection Strategy (RPS) - Examination Project
9. Document Request/Handling
10. Installment Agreements

This analysis, which represents actual data from PRP casework, will form the basis for the majority of the advocacy activities undertaken by PRP in the coming year. This data was also supplemented with input from taxpayer focus groups and practitioner groups during FY 1997 in order to develop a more comprehensive approach toward quantifying the problems faced by taxpayers in dealing with the IRS. The data will continue to be analyzed on a quarterly basis during FY 1998 to identify trends, patterns, aberrations, and possible anomalies.

Some initiatives undertaken in FY 1997 have already had a positive effect in reducing the volume of casework received by PRP as reflected by the top ten MICs:

- While Audit Reconsiderations (#1) continue to be the single largest source of cases received by PRP, a multi-functional working group chaired by the TA's office, with representatives from Examination and Customer Service, was formed to consider national implementation of the Centralized Audit Reconsiderations Project, a project which originated in the Western Region. The IRS Executive Committee has also approved a change in the time frame for issuance of Examination notices. This change extends the time between notices to improve association of taxpayer correspondence, which should reduce the number of Audit Reconsideration cases.
- During FY 1998, Taxpayer Advocates from the Midstates Region and Service Center Operations will be revisiting the systems involved in processing Claims and Amended Returns (#4) to validate adoption of the recommendations made during an advocacy project and recommended to the responsible official in an advocacy memorandum in FY 1997.
- Federal Tax Deposit (FTD) Penalty issues which ranked seventh in volume during FY 1996 declined to fifteenth in volume for FY 1997. The lower error rate is the result of deposit rule changes which have greatly simplified the process.
- An increase in the electronic filing of returns resulted in fewer errors and may have also impacted the number of cases involving errors in the processing of Individual Returns (#6, down from #4 in FY 1996) referred to PRP.
- Expanded authority of IRS personnel which broadened the number of IRS employees empowered to authorize Installment Agreements with taxpayers

contributed to a significant decrease in the number of PRP cases involving Installment Agreements (#10). The ranking remained the same from FY 1996.

The Taxpayer Advocate had previously recommended the establishment of Regional Advocacy Councils to serve as the primary focal point for reviewing PRP problem data and initiating corrective actions. In FY 1997, all four regions established councils with cross-functional representation. The newly designated Taxpayer Advocate for Service Center Operations will also be establishing an Advocacy Council in FY 1998. IRS executives in the field and Headquarters are expected to provide support to the TA through encouragement of functional participation in the analysis and systems improvement efforts initiated by their local and regional Taxpayer Advocates. Regional Commissioners have been asked to review the data for their respective organizations and to initiate appropriate actions. Advocacy projects generated by major issue code analysis and sponsored by the Regional Advocacy Councils are discussed in more detail later in this report.

THE MOST SERIOUS PROBLEMS FACING TAXPAYERS

The FY 1996 Annual Report outlined, from an agency view point, a listing of the 20 most serious problems encountered by taxpayers. Much of this data was drawn from MIC analysis and the experience of IRS field offices. During FY 1997, the TA employed an alternative approach to identify and verify the most serious problems facing taxpayers in FY 1997.

In addition to the data derived from the MIC analysis and from internal field offices, the TA sought input from external stakeholder groups and from taxpayers themselves in order to refine and update the list. External customers and professional groups were polled for their concerns and recommendations regarding the most serious problems they encounter. This list, which is included in this report, was developed from letters, reports, and articles from tax practitioners and professional associations gathered since January 1997. The list includes the issues most frequently presented and ranked.

Additionally, at the Taxpayer Advocate's direction, the IRS' Strategic Planning Division conducted a series of taxpayer focus group interviews. The interviews were conducted separately with individual and business taxpayers in five different cities. The purpose of the interviews was to gain insight into the most serious problems and concerns taxpayers face when dealing with the IRS. The data from these sessions was ranked in order and is included in this report.

This approach has shown that the top ten problems identified by each group are relatively consistent. Agreement is less consistent, however, in the next tier of problems identified. These problems seem to be more isolated and vary in number throughout the country. The most serious problems, identified by the focus groups (individual and business taxpayer), tax practitioners/groups and IRS are included in the following table:

The Most Serious Problems Facing Taxpayers

#	Focus Group Summary (Individual & Small Business Groups)	Tax Practitioners	Internal Revenue Service
1	Complexity of Forms & Instructions	Complexity of Tax Law	Complexity of Tax Law
2	Telephone Access and market segment driven service	Customer Service/Telephone Access	Telephone Access
3	Complexity of Tax Law	Electronic Filing	Clarity and Tone of IRS Communication

#	Focus Group Summary (Individual & Small Business Groups)	Tax Practitioners	Internal Revenue Service
4	Access to Forms & Service	Offer in Compromise Issues	Delays in Compliance Contacts
5	Getting Correct Answers that can be relied upon	Penalties	Understanding FTD Requirements
6	Treatment, fairness, & confidentiality	Notices	Lack of One-stop Service
7	Responsiveness - getting issues resolved	Power of Attorney Issues	Penalty Administration
8	Record keeping & paperwork	A Uniform Set of Standards Does Not Apply to Everyone. (System Is Unfair)	Administration of EITC
9	Fear of Audits & Documentation Needed	Compliance Difficulties for Small Business	Lack of Concern for Taxpayers' Problems and Issues
10		Lack of Flexibility and Use of Common Sense in Dealing with Collection Situations (Installment Agreements.)	Lack of Correspondence of Submissions/Payments
11		False Assertions of Underreported Income	Maintaining Taxpayers Current Addresses
12		Revenue Agents and Officers Need More Tax Law and Sensitivity Training	Separate Mailing of Math Error Notices and Refund Checks
13		Delays Advising Taxpayers Of Problems	Divorced & Separated Taxpayers
14		Lack of Understanding Taxpayer Concerns.	Misapplied Payments
15		Tax and Interest Computations	Delays in OIC Processing
16		Freedom of Info. Response Time	Compliance Burden on Small Business
17			Substitute for Return (SFR) Issues
18			Length of Time PRP Cases Are in Exam.
19			Cost to Taxpayers of Electronic Filing
20			ACS Levy Releases

The Most Serious Problems Facing Taxpayers (Per IRS Listing)

The following charts highlight the top twenty problems faced by taxpayers (from the IRS listing) in their dealings with the IRS. In addition to a brief synopsis of each problem, the following information is provided in accordance with the requirements of TBOR 2:

- (1) the responsible officials report of the actions taken during the fiscal year to address the problem,
- (2) the result of the actions; *Note: if no actions were taken, the reasons for no activity were included,*
- (3) a discussion of the ongoing actions or the actions planned for FY 1998, and
- (4) the Taxpayer Advocate's comments, where appropriate.

PROBLEM #1: COMPLEXITY OF TAX LAW

Description of Problem: Laws and implementing regulations can be simplified and record keeping requirements can be reduced tax forms and schedules can be streamlined, audits can become more efficient, and burdens can be minimized. Timely guidance must be provided. New tax laws, such as the Taxpayer Relief Act and the Balanced Budget Act of 1997 not only increase complexity of tax laws and increase work for the IRS but also cause confusion among taxpayers and require more training for IRS employees.

Responsible Official: Various

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions <i>(If no actions were taken, include reasons for no activity.)</i>	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• Chief Counsel is continually working to make the rules and regulations that implement new legislation as simple as possible with the least burden to taxpayers while effectuating Congressional intent.• Counsel works with Treasury's Office of Tax Policy to advise Congress of concerns the IRS has with legislation that is under consideration.• Early action and implementation plans were developed for the new legislation. The Filing Season Readiness Committee includes legislation on its agenda.• Employees and managers received training and overviews of legislative changes.• The IRS provides tax change highlights and other aids to taxpayers on the homepage.• The regional and field advocates conducted meetings with taxpayers and tax practitioners in various outreach presentations.	<ul style="list-style-type: none">• Employees and customers will be better prepared to deal with the impact of the tax law changes.	<ul style="list-style-type: none">• Implementation plans will continue to be monitored; the Filing Season Readiness Committee will continue to meet due to the increased potential for more legislative changes.• The IRS will continue to develop training to improve our Compliance and Customer Service employees' abilities in interpreting tax laws correctly; and to achieve consistency in technical and procedural approaches.• The IRS is developing "on-line" applications (e.g. an automated Form W-4 to help determine the correct number of exemptions to claim) to help taxpayers understand and comply with the tax laws.

PROBLEM #1: COMPLEXITY OF TAX LAW *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions <i>(If no actions were taken, include reasons for no activity.)</i>	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • Due to programming problems that could not be resolved before the filing deadline for the TY 1996 returns, the IRS canceled its 1997 mailout of notices for the Reduce Unnecessary Filing (RUF) program. This program advises taxpayers who filed tax returns for the preceding year (even though they were not required to do so) that they may not need to file for the current year. • The RUF taxpayer outreach programs- TCE and VITA continued. • The LAUNET system has been used to provide agents access to current technical information. • The Taxpayer Advocate (TA) elicited from the tax practitioner community suggestions for legislative changes to simplify the tax law and tax systems. We have also submitted a number of proposals for legislative changes as part of this report. • The Southeast Regional Taxpayer Advocate partnered with the State Departments of Social Services and Departments of Taxation to expand Taxpayer education efforts for the "Workfare Initiative". • As part of the Western Region's Earned Income Tax Credit (EITC) Advocacy Project, 76,000 letters were issued, to FY 1995 filers who claimed EITC, explaining changes in tax law and ITIN requirements. Letters were printed in both English and Spanish. 	<ul style="list-style-type: none"> • No RUF notices were mailed during FY 1997. • In 1997, an estimated 27,000 taxpayers did not file tax year 1996 returns due to RUF screening at the tax assistance sites. • This helped to educate taxpayers about the new laws and may have helped them avoid math errors on their 1996 tax returns. 	<ul style="list-style-type: none"> • The IRS will mail letters to approximately 600,000 taxpayers advising that they may not have to file an income tax return for tax year 1997. The IRS estimates that this mailout may prevent approximately 400,000 unnecessary return filings. • The RUF taxpayer outreach program is expected to prevent another 27,000 taxpayers from filing unnecessary returns in 1998. • In November 1997, the IRS sent new letters and Form W-4P to approximately 30,000 pensioners. This should reduce the number of these types of returns being filed in 1999. • The TA's Office will develop an EITC training package for employees and develop consistent communication products to all IRS employees. • Actions will be ongoing and further EITC simplification measures will be pursued. • Expanded Focus group interviews or a telephone survey are anticipated for FY 1998.

PROBLEM #1: COMPLEXITY OF TAX LAW *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions <i>(If no actions were taken, include reasons for no activity.)</i>	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • An article included in the California Society of Enrolled Agents (CSEA) monthly newsletter (4,500 members) regarding the tax law changes and EITC/ITIN requirements. • Focus Group interviews were conducted in conjunction with CSEA at seminars to examine the practitioners perceptions and opinions regarding EITC. • The IRS briefed external stakeholders and issued publications and educational materials to improve their understanding of tax law changes. • The IRS submitted input for incorporation into the Technical Corrections Act. • The IRS initiated revisions required for electronic filing programs, and revised tax forms, instructions and publications to explain new legislative provisions. • Tax forms, instructions, and publications were revised to explain the tax provisions in the Taxpayer Bill of Rights 2, the Personal Responsibility and Work Opportunity Act, the Small Business Job Protection Act, and the Health Insurance Portability and Accountability Act. The IRS developed new forms and publications to implement the new provisions for SIMPLE retirement plans, the adoption credit, medical savings accounts, long-term care benefits, and expatriates. 	<ul style="list-style-type: none"> • Input was used to improve EITC administration and to make legislative recommendations. This was also an opportunity to educate the practitioners about EITC. 	<ul style="list-style-type: none"> • Outreach efforts will also continue to help customers understand and comply with the tax law changes. • The Audit Techniques Guides will continue to be developed for use by IRS employees and made available to taxpayers and their representatives • Because the Technical Corrections Act is unlikely to pass this year, the IRS is working with Treasury on a policy for partnerships for this filing season. • The IRS will continue developing new forms and publications enabling taxpayers to deal with provisions in the new tax law such as: <ul style="list-style-type: none"> ◦ The Form 1098-T provided to the educational institutions assists taxpayers in computing tuition credit. ◦ The Form 1098-S provided to the financial institutions assists taxpayers in computing student loan interest deductions.

PROBLEM #1: COMPLEXITY OF TAX LAW *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions <i>(If no actions were taken, include reasons for no activity.)</i>	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS has identified changes to over 200 tax forms and instructions and over 50 publications to reflect this legislation. • To provide necessary guidance to taxpayers, the IRS issued Publication 553, Highlights of 1996 Tax Law Changes, and distinguished between those provisions that were effective immediately and those effective in Tax Year 1997 and later (e.g., adoption credit). • The IRS developed new publications explaining the tax credits and benefits associated with adoption and medical savings accounts to provide detailed information during the tax year instead of at the end of the year. • Other changes made to forms, instructions, and publications include: <ul style="list-style-type: none"> ◦ Streamlined Form 1040 instructions for about 10 million filers with simpler tax situations; ◦ expanded eligibility for filing Schedule C-EZ for sole proprietors; and ◦ redesigned Publication 334, Tax Guide for Small Business and Publication 595, Tax Guide for Commercial Fishermen to remove duplicate information and tailor the publications for the targeted audiences. ◦ The IRS also contracted with an outside vendor to make recommendations for improving the Form 1040 instructions. 		<ul style="list-style-type: none"> • The IRS is developing at least ten new products to implement the provisions in the Taxpayer Relief Act of 1997. These include new income reporting forms as well as new publications to explain the various educational benefits in the legislation. • The IRS will continue to incorporate innovative writing techniques in the development of instructions and publications.

PROBLEM #1: COMPLEXITY OF TAX LAW *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions <i>(If no actions were taken, include reasons for no activity.)</i>	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> The IRS provided extensive training to regional, district, and field offices regarding electronic payments and issued updates through the Taxpayer Service Electronic Bulletin Board and Public Affairs Office, and various other brochures and publications used for outreach activities. 	<ul style="list-style-type: none"> The IRS received positive feedback from practitioner groups and the public regarding the new format and tone of letters regarding electronic payments. The public has a clearer understanding of the Electronic Funds Transfer Payment System (EFTPS) and no longer feel intimidated by the letters. 	<ul style="list-style-type: none"> The IRS will continue to work with the Financial Management Service (FMS), Small Business Affairs Office, Public Liaison Office, and marketing firms to correspond with taxpayers to assist them in meeting enrollment requirements set forth by law for electronic payments.
TA Comment: While the IRS actions being taken are commendable and will greatly assist taxpayers, the root cause of this issue is continued changes to the tax law.		

PROBLEM #2: INABILITY TO ACCESS THE TOLL-FREE NUMBER

Description of Problem: In addition to the inability to access the toll-free number. Taxpayers continue to express the following related Customer Service (CS) concerns:

- ◆ Inconvenient hours and office locations;
- ◆ Inconsistent answers to the same question;
- ◆ Having to take off from work for Examination appointments;
- ◆ Use of voice mail and recorders is frustrating.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• Increased Level of Access• Increased hours of service for account callers to 7:30 a.m. -9:00 p.m. Four centers were open for a second shift to provide the expanded coverage.• Added a line for refund calls which require less technical knowledge. Staffing that line separately eliminated the simpler calls so that more complex calls could be answered by the appropriately trained staff.• Increased staffing to be able to answer more calls.	<ul style="list-style-type: none">• Calls answered increased in FY 97.• Answered 5 million calls on this dedicated line which optimized service .• Answered 15 million more toll-free calls--tax law, refund, and account. (60 million in FY 1997 compared to 45 million in FY 1996)	<ul style="list-style-type: none">• Expand hours of service to 16 hours per day 6 days a week beginning in January, 1998.• Earned Income Tax Credit calls will be moved to the refund line which will further reduce the demand for more highly trained assistants (which requires more time.).

PROBLEM #2: INABILITY TO ACCESS TOLL-FREE *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • Examination resources were utilized to respond to technical tax law inquiries. • The IRS began upgrading telephone equipment to allow the toll-free forms ordering sites to provide automated information to the taxpayers. • During FY 1997 the Service routed calls on a regional basis to balance incoming call traffic within a given geographic area. 	<ul style="list-style-type: none"> • Enabled Customer Service resources to answer more toll-free calls live. • By December 1997 the upgrade to the Automatic Call Distribution (ACD) equipment for all toll-free forms ordering sites will be completed. • The routing of telephone traffic allowed the Service to provide more consistent and prompt service to the taxpayer. In those situations where an answering site was closed, we were able to route traffic from the affected area codes to other call sites(s) resulting in load leveling of the incoming calls. 	<ul style="list-style-type: none"> • Examination resources will again be used to respond to technical tax law inquiries. • Compliance employees will answer incoming telephone calls during periods when existing staffing is insufficient to handle telephone demand. • The new telephone equipment allows the IRS to explore after hours messaging to provide assistance in addition to an expanded 16 hour/6 day a week operation. • IRS currently routes traffic on a nationwide basis. All sites are treated equally and traffic is routed to any open site regardless of area code of call origin (since calls are treated as a corporate asset). This is called Nationwide Allocation Routing (NAR) it is based on the number of hours of access by time zone (origin of call), and each call site's percent of the nation's scheduled calls for the day. • In March 1998, the IRS will test a call router which provides automated real-time national call routing capability. This will allow us to route any given call to a site where a Customer Service Representative (CSR) is available to handle the call. • In an effort to refine NAR, we schedule calls on an hourly basis, and route traffic accordingly. Each call site is responsible for scheduling and determining their staffing needs based on their proportional share of the hourly national demand.

PROBLEM #2: INABILITY TO ACCESS TOLL-FREE *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS routinely reschedules Examination appointments to accommodate taxpayer schedules and conducts audits by correspondence when appropriate to minimize the need for taxpayers to take off from work. • The Customer Service Standardization Business Initiative Group issued a report establishing guidelines for consistent messaging by the call sites. • The IRS installed automated balance due and installment agreement equipment to offer greater access to taxpayers. 	<ul style="list-style-type: none"> • The call sites have been directed to adhere to the Standardization guidelines. 	<ul style="list-style-type: none"> • To move from the labor intensive process of determining call routing configurations we will be utilizing "Call Scheduling and Forecasting" software along with the services of an outside contractor to perform a detailed daily analysis. In addition, we will use GEO-TEL to move to an automated environment to route traffic. • The recently finalized FY 1998 Return Delinquency Program Delinquency Check Schedule has been engineered to minimize delinquency notice issuances during the 1998 filing season's peak toll-free period to reduce demand and permit an increased level of access to the toll-free assistance lines. • We will continue implementation of Standardization Report recommendations.

PROBLEM #2: INABILITY TO ACCESS TOLL-FREE *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS revised various tax publications to clarify the Tele-TIN telephone numbers (used for obtaining Taxpayer Identification Numbers) specific to each service center. • Service centers revised their pre-recorded Tele-TIN message to inform and educate taxpayers about applying for EINs by FAX (FAX-TIN) instead of Tele-TIN. • FAX-TIN is currently available in all centers. • Toll-free access was one of the primary advocacy project for the Midstates Region. • The Midstates region advocacy project team members conducted focus group interviews in conjunction with their annual Continuing Professional Education (CPE). Three groups (approximately 10 people) of telephone assistants and groups of quality assurance employees, customer service managers, and tax practitioners were interviewed. 	<ul style="list-style-type: none"> • These revisions clarified instructions directing phone callers to the proper service center. • Reduced the volume of Tele-TIN calls thus leaving the telephone system only for emergency situations (i.e., needing to make a tax payment immediately) • The information obtained from participants was varied and contained many good suggestions. Among these were a number of suggestions for increased automated response systems such as an interactive system for address changes and providing short, information messages on specific topics found to be high volume during certain periods. 	<ul style="list-style-type: none"> • Review additional methods to assign EINs in order to reduce taxpayer frustration. Some of these methods are: <ul style="list-style-type: none"> ◦ Allow taxpayers to apply for TIN via PC (PC-TIN) ◦ Allow banks to request blocks of EINs for future issuance (Auto-EIN) ◦ Enter into Fed/State agreements to issue EINs at the state level (FEIN). • The report has been finalized. Actions on recommendations will be an ongoing project in the coming fiscal year. • The region will continue to develop new marketing strategies to support the movement of telephone calls to alternative information sources or automated systems.

PROBLEM #2: INABILITY TO ACCESS TOLL-FREE *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The communication sub-group also modified a version of an effective Internet/IRS Page for marketing strategy developed by a district office. The presentation contains "Internet 101" information and various IRS electronic services including the Home Page, CD-ROM, FAX-on-demand, etc. The presentation can be modified through the use of transparencies or handouts for use at outreach and education events. • In the Western region, Customer Feedback Survey statistics were discussed in field offices and used to improve communications with taxpayers and their representatives. Districts emphasize courteous and professional treatment of all customers, and are conducting Conflict Management Training. 		<ul style="list-style-type: none"> • A working group is considering a number of proposals to promote taxpayer education and direct customers to information sources other than toll-free assistors. One of these is to market reproducible forms on CD's for distribution to large employers and quick photocopy centers. Several of our state counterparts have indicated an interest in having the CD available in their offices.
TA Comment: IRS is making a diligent effort to address this area of concern. Several task forces are looking at various elements of this issue.		

PROBLEM #3 CLARITY AND TONE OF IRS COMMUNICATIONS

Description of Problem: Unclear notices generate telephone calls; redundant notices on same issue; untimely notices; taxpayers do not know how to respond to notices; tone of IRS communications to compliant taxpayers is the same as for non-compliant taxpayers.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS issued guidance to field offices on the proper tone to be used in letters inviting business owners to participate in compliance programs such as Tip Reporting Alternative Commitment (TRAC) and Tip Rate Determination Agreements (TRDA). • Based on customer feedback, IRS developed a brochure discussing frequently asked questions related to compliance checks. • The IRS' notice redesign project continued working with stakeholders to complete surveys on redesigned (test) notices. • During calendar year 1997, the IRS convened a task force to review Underreporter notices (CP-2000) for Tax Year 1996 cases and make changes to provide a clearer and more effective notice. 	<ul style="list-style-type: none"> • Surveys were tabulated and appropriate recommendations were incorporated into test notices. • The CP-2000 for Tax Year 1996 was redesigned resulting in improved clarity of the notice and, on average, a reduction from nine to six pages. Notices went into production December, 1997. 	<ul style="list-style-type: none"> • To determine the impact of various factors, relating to rework cases (including clarity of examination reports), a multifunctional group has been formed to perform an in-depth review of audit reconsideration cases. Recommendations should be finalized by FY 1999. • Ongoing monitoring of notices will continue. • A study of taxpayer reactions to the CP-2000 for Tax Years 1995 and 1996 is being performed by a private contractor. Appropriate changes will be made to the notice based on results of this study.

PROBLEM #3**CLARITY AND TONE OF IRS COMMUNICATIONS** *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS began a major redesign effort.• Major goals of this effort are:<ul style="list-style-type: none">◦ give specific instructions on what taxpayers should do in response to the notices,◦ revise the tone of notices,◦ provide the "bottom line" on the first page,◦ use a more "user-friendly" format (more white space, tables, checklists, eliminate bureaucratese).• The prototype On-line Notice Review System was tested, the security certification was completed and nationwide roll out was scheduled to begin November 1997. The system would have eliminated approximately 500,000 pieces of paper used for the review of notices each week. Implementation would have decreased the demand on print time and improved the timeliness of notices.• The IRS took several actions in FY 1997 to address problems with Collection balance due notices. First, they were redesigned from 3 and 4 pages to one page with language that is clearer to understand and softer in tone. Appeal rights information was added to the installment agreement default notice.• Spanish notices were revised.	<ul style="list-style-type: none">• A Statement of Work to contract with a vendor to rewrite and redesign our notices is in the approval process• The redesigned notices will use less paper than current versions. Duplex printing (print on both sides of the paper) will also reduce the volume of paper used to print notices. We expect this reduction of paper to assist in resolving some print systemic problems.• Current computer system limitations prevent the elimination of redundant notices.• Conflicting Information system priorities prevented the roll-out of the system this year.• Telephone calls were reduced. Favorable feedback was received from a taxpayer survey on the redesigned notices.	<ul style="list-style-type: none">• The majority of notices will be redesigned and in production early in Calendar Year 1999.• The IRS is exploring the possibility of combining same issue notices that are generated in the same week.• The IRS is continuing internal discussions to determine how the On-line Notice Review System will fit into the Modernization Blueprint.• As a result of the feedback, some additional changes will be implemented during FY 1998.

PROBLEM #3**CLARITY AND TONE OF IRS COMMUNICATIONS** *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS and the Financial Management Service (FMS) jointly contracted with a marketing firm to create correspondence promoting the Electronic Federal Tax Payment System (EFTPS). The firm created publications, brochures and other correspondence for the EFTPS program.• The EFTPS Executive Advisory Group approved all letters produced by the firm. Copies of the letters were shared with external stakeholders last spring.• Customer Feedback Survey statistics are discussed in field offices and used to improve communications with taxpayers and their representatives. Districts emphasize courteous and professional treatment of all customers, and are conducting Conflict Management Training.	<ul style="list-style-type: none">• The IRS received positive feedback from practitioner groups and the public regarding the new format and tone of the letters. The public now appears to have a clearer understanding of EFTPS .	<ul style="list-style-type: none">• The IRS plans to add a "Change of Address" box on the front of payment vouchers and space on the back of the vouchers to write the new address. More account information will be added to the Account Summary section of balance due notices. Also being explored is the inclusion, on the backs of notices, of a brief explanation of how IRS computes penalty and interest.• The IRS will continue to work with the FMS, the marketing firm, and other internal and external stakeholders to improve correspondence and facilitate meeting the EFTPS enrollment requirements set forth by the law.

PROBLEM #3**CLARITY AND TONE OF IRS COMMUNICATIONS** *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The Western Region's Taxpayer Advocate Office is working closely with the Ogden and Fresno Service Centers on systemic problems involving confusing and/or erroneous computer generated notices (e.g., CP521, Installment and Reminder Notice, and CP 575, Assignment of EIN).• One office in the Western region is experimenting with an improved Office Examination initial appointment letter. Through quality review efforts, they are also reinforcing the use of timely, accurate, and clear, well-toned communications with taxpayers.		
TA Comment: While much has been accomplished, much remains to be done in this area with the IRS somewhat dependent upon new computer systems to affect these changes.		

PROBLEM #4 DELAYS IN COMPLIANCE CONTACTS

Description of Problem: Compliance contacts are initiated one to two years after the taxpayer received and/or reported the income. Because of these delays, penalty and interest assessments exceed the actual tax due.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS issued Underreporter Program notices to taxpayers for their Tax Year 1996 returns in December 1997.• The Return Delinquency Program accelerated issuance of delinquency notices for several types of individual nonfilers. In October 1996 notices were sent to almost 140,000 taxpayers for Tax Year 1995 returns, which were due in April of that year.	<ul style="list-style-type: none">• While not all contacts for Tax Year 1996 returns will be made prior to January 1, 1998, this is a significant improvement over previous years when Underreporter notices were sent to taxpayers 18 months to two years after the tax year in question.• 54,000 taxpayers filed delinquent returns between October 1996 and April 1997 with \$221 million tax assessed.	<ul style="list-style-type: none">• No further acceleration of the Underreporter Program is planned because of the validation process that needs to take place before contacts can be made. That process includes perfecting the information return database that is matched against data reported on taxpayers' returns.• In FY 1998, the types of individual nonfilers receiving accelerated delinquency notices are being increased. More than 350,000 notices were issued in October and November of 1997 for Tax Year 1996.

PROBLEM #4**DELAYS IN COMPLIANCE CONTACTS** *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS continued developing and testing the Business Information Database (BID). <p>When fully operational, BID will automate the analysis of data captured by IRS, shortening the interval between return filing and follow-up contacts by the Service (relative to business filers). This should reduce penalty and interest assessments, improve the timeliness and quality of compliance contacts by IRS, reduce the number of taxpayer contacts required to clarify and validate information reported, and provide a comprehensive analysis of all available data on the taxpayer. IRS initiated contacts with taxpayers will be for information not previously reported.</p>	<ul style="list-style-type: none">• Generally, returns filed during the current year are not available to order, select and classify for audit until late summer through fall of the filing year. Returns are not usually available to schedule for an audit until November or December. This is a systemic problem.	<ul style="list-style-type: none">• Continued development of the BID will integrate data from IRS' eleven primary master files into one relational database. <p>During FY 1998, the IRS will formulate success criteria for evaluating BID's performance; expand BID testing nationwide to 10 districts -- including at least one in each Region; test cases designed to identify income tax non-filers; and make preliminary recommendations concerning the future development, testing, and implementation of BID.</p>
TA Comment: These accomplishments are a positive step towards dealing with this issue.		

PROBLEM #5 UNDERSTANDING FEDERAL TAX DEPOSIT REQUIREMENTS

Description of Problem: The IRS should simplify rules and regulations, revise employment tax forms and publications, improve informational material to businesses, conduct ongoing outreach programs, increase access to assistance and make processing improvements to reduce taxpayer burden and increase efficiency.

The complexity of the process may result in erroneous assessments causing additional adjustments. More stringent penalties have not improved compliance.

Responsible Official: Various

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• Deposit rule changes in recent years have materially reduced the number of PRP cases in this area.• The Electronic Federal Tax Payment System (EFTPS) has caused added burden. The need to learn and adapt to a new process may be the underlying cause of many complaints. However, in the long term, EFTPS will simplify taxpayers' deposits. EFTPS will enable a taxpayer to make a deposit by simply placing a phone call or completing the deposit transaction using a personal computer, eliminating the trip to the local bank each time a deposit is required. Also, because the FTD forms were susceptible to taxpayer error, EFTPS should eliminate many problems.• The IRS mails various pamphlets, reminder notices, and newsletters to business taxpayers. The IRS and the Social Security Administration issue news releases and other public notices to help taxpayers understand and comply with the tax deposit requirements.		<ul style="list-style-type: none">• The TA's office is reviewing administrative measures that will simplify the process for some taxpayers.

PROBLEM #5
UNDERSTANDING FEDERAL TAX DEPOSIT REQUIREMENTS *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS surveyed practitioner groups for suggestions to improve forms and instructions. • Publication 334, Tax Guide for Small Business, was streamlined to provide tax information to a targeted group (<i>sole proprietors</i>). • The IRS recently revised the notice employers receive when they obtain an Employer Identification Number (EIN) to include a description of the FTD rules and procedures. • When new businesses request their initial Employer Identification Number (EIN) using Form SS-4, several district offices are requesting copies of the SS-4 for particular industries or market segments. The new employer is then provided industry specific filing information, access to a specialist for their market segment, a list of the most used forms for their type of business, and an invitation to attend orientation for new employers. 	<ul style="list-style-type: none"> • The IRS incorporated proposed changes in the EFTPS enrollment forms, instructions and payment instruction booklets. Practitioner feedback to these revisions has been favorable. • Participating employers are given orientation that assists them in understanding their FTD requirements. 	<ul style="list-style-type: none"> • In an effort to reduce taxpayer burden, the IRS will continue to meet with practitioner groups quarterly to discuss their concerns and to identify which rules need clarification. • This program will continue in FY 1998.
<ul style="list-style-type: none"> • The IRS developed and tested, on a limited basis, a Form 941 TeleFile package that allowed eligible employers to file their employment tax returns by telephone. 	<ul style="list-style-type: none"> • The 941 TeleFile test was successful. Users of the system were very satisfied with the ease of filing, the convenience and the security of receiving an acknowledgement that the return was received by the IRS. Over 95% of the users indicated that they would use the system. 	<ul style="list-style-type: none"> • The 941 TeleFile system will be available nationwide to eligible employers beginning the first quarter of 1998. Employers will receive a special tax package that includes the traditional Form 941 and the 941 TeleFile Tax Record, so they have a choice in their method of filing. Small businesses that have been operating at least 12 months and who are monthly federal tax depositors are eligible. The telephone call takes about 10 minutes and is free. The system is available 24 hours a day, 7 days a week.

PROBLEM #5**UNDERSTANDING FEDERAL TAX DEPOSIT REQUIREMENTS** *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS has conducted Outreach Programs on employment tax rules and regulations with the general public and with government agencies.• A joint IRS/Commissioner's Advisory Group (CAG) FTD study was completed.	<ul style="list-style-type: none">• The public has an increased understanding of withholding, reporting, and filing requirements.• The study showed that the 1993 FTD rule change made it easier for several employer groups to comply with their deposit requirements. Although employers continue to have problems with definitions (such as "look back period"), monthly depositors experienced a reduction in deposit penalties because their deposit requirement is no longer subject to frequent changes as often happened under the pre-1993 rule.	<ul style="list-style-type: none">• The IRS will address problems related to the application of the First In First Out (FIFO) rule that results in incorrect penalties for those taxpayers who miss a deposit early in the quarter but make subsequent deposits timely.• The IRS will increase the quarterly threshold for making deposits from \$500 to \$1,000.• The IRS will continue to analyze data from this study to identify additional groups that are at risk for noncompliance.• The IRS will develop a profile of the employers who did not receive penalties during the study period.
TA Comment: The earlier discussion on the source of PRP cases showed a significant decrease in cases involving FTD penalties, a sign of positive changes in this program.		

PROBLEM #6: LACK OF ONE-STOP SERVICE

Description of Problem: Taxpayers continue to express frustration with having to make multiple contacts with different IRS employees and offices to resolve their problems. Also the IRS is often unable to service non-English speaking taxpayers at first contact.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• Solutions to the lack of one-stop service lie in systems redesign and modernization, and in the hiring of more bilingual employees. Meanwhile, field offices are doing what they can. For example, one district Customer Service Site hired additional assistants and initiated several training efforts to ensure that all employees have a comprehensive knowledge of the Integrated Data Retrieval System (IDRS).• Another district initiated a system in which local Examination and Collection groups work together to speed up processing cross-functional issues.• The Taxpayer Service and Automated Collection operations have blended into a single Customer Service function.		

PROBLEM #6: LACK OF ONE-STOP SERVICE

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• In the Southeast Region employees were cross-trained to handle Collection and Taxpayer Service issues (the major sources of walk-in office work).• One district made the following changes at all taxpayer service walk-in offices:<ul style="list-style-type: none">◦ Express line services offered◦ IDRS terminals installed at the front desk◦ Implemented a self service payment system (drop box)◦ CD Rom installed at the front desk to generate tax forms		

PROBLEM #6: LACK OF ONE-STOP SERVICE *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS homepage has been established to provide information on an immediate basis, 24 hours a day, 7 days a week. • Besides providing tax forms and publications for immediate download to the taxpayers' computer, we also provide tax change highlights and other aids to taxpayers • Customer Service operates a service that will fax back tax forms, publications, and "Tele-Tax" topics (tax tips/explanations) to the taxpayer. This toll service is available 24 hours a day, 7 days a week. • The IRS tested expanding the Customer Service role at the three Area Distribution Centers (ADC). • The IRS has changed the focus of service delivery. In the past, focus was on delivering the scheduled number of calls. Focus is now on answering customer calls when they come into the system. • Established a customer focus for initial contact resolution. 	<ul style="list-style-type: none"> • From January through August 1997 the IRS had approximately 210 million visitors to the homepage. This resulted in more than 8.1 million downloads. • In FY 1997, the fax back service delivered more than 786,000 transmissions (which can include up to 3 products per transmission). • From 3/3/97 to 4/15/97, assistants at the Central ADC answered more than 33,000 frequently asked nontechnical questions. • There is a balance between answering calls, reducing busy signals and minimizing abandoned calls. • Greater attention was paid to initial contact resolution, including the gathering of data to establish a baseline for improvement of 79%. 	<ul style="list-style-type: none"> • The IRS continues to expand the homepage to include information useful to the taxpayer. This includes explanations of major tax law and procedural changes. • The IRS is developing "on-line" applications (e.g., an automated Form W-4 to help determine the correct number of exemptions to claim) to help taxpayers understand and comply with the tax laws. • The ADCs have successfully negotiated with the union to develop methods that will allow ADCs to answer routine procedural questions that are currently referred to the Customer Service Sites. This will be implemented during FY 1998 and will result in thousands of taxpayers no longer having to make a second call to Customer Service. • The IRS will expand upon the baseline and improve.

PROBLEM #6: LACK OF ONE-STOP SERVICE *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • Case managers for Coordinated Examination Program (CEP) audits emphasize one-stop service, and explain the concept to taxpayers at the beginning of each examination. An account resolution specialist has been designated in each service center to provide assistance to the case manager and/or the CEP taxpayer in resolving many problems that CEP taxpayers face. • Quarterly, the IRS publishes a CEP newsletter distributed to outside constituents. Included in the newsletter are articles on One-Stop-Service. • A task force of field and National Office participants convened in July and August 1997 to develop national strategies to manage Customer Service multilingual telephone demand. The task force focused primarily on expanding the toll-free assistance and automated services such as Tele-Tax and TRIS to improve access for multilingual callers. 	<ul style="list-style-type: none"> • CEP taxpayers are more aware of the assistance available. • The task force recommended the following: <ul style="list-style-type: none"> ◦ Develop a national customer service policy; ◦ Establish a separate toll-free number for multilingual assistance; ◦ Use a private interpreter service; ◦ Add an opening prompt in Spanish to Teletax; ◦ Provide TRIS applications in Spanish; ◦ Translate into Spanish selected notices that generate high call demand; ◦ Develop and implement nationwide machine-assisted translation system; and ◦ Establish centralized oversight over multilingual issues. 	<ul style="list-style-type: none"> • CEP case managers will continue to emphasize One-Stop Service concept to taxpayers, meet regularly with corporate taxpayer representative groups, and distribute copies of CEP newsletters to taxpayer representative groups. • The recommendations are being reviewed by the impacted Customer Service areas to recommend necessary actions for implementation for the 1998 filing season. If adoption is not feasible at that time, an action plan for implementation by the 1999 filing season has been requested.
<p>TA Comment: The recent experience and feedback received from the IRS problem solving day events clearly reflect the benefits of providing one-stop service. Results of problem solving days are currently being evaluated for specific actions to be taken. This will be reported on in more detail in the FY 1998 report.</p>		

PROBLEM #7 PENALTY ADMINISTRATION

Description of Problem:

- Administration of penalties is fragmented into too many locations.
- At times, penalty abatement is used as a tool to negotiate with taxpayers.
- The IRS handbook on reasonable abatement of penalties is not very specific, causing different interpretations.
- The imposition or abatement of a penalty is generally a judgement call, which often translates into lack of consistency in applying criteria.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS revised Penalty Internal Revenue Manual (IRM) (20) at the end of FY 96. • IRM (20)100 provides general guidelines for penalty relief. It clearly discusses penalty relief (including reasonable cause) and the guidelines that employees must follow in penalty relief or abatement determinations. • Training continues for all public contact employees on IRM 20, in efforts to achieve consistency. At group levels, the focus has been placed on resolving as many interpretation issues as possible. • The IRS developed and broadcast a nationwide cross-functional penalty-relief training video. Copies of the video tape have been sent to all districts for presentation at group meetings. Current IRS policy on penalty administration prohibits employees from negotiating with taxpayers to waive appropriate penalties to obtain their agreement to proposed audit adjustments. 	<ul style="list-style-type: none"> • The Penalty IRM consolidated and replaced all other internal management documents dealing with the administration of penalties. It is the primary source of authority for the administration of penalties by the IRS. • The guidelines are intentionally general because penalty relief, especially reasonable cause determinations, is a judgment call based on all the facts and circumstances of the situation. More specificity is not practical because there are too many situations that may result in a penalty abatement based on reasonable cause. • More focused training for employees on penalty issues provided employees with the tools they need to make consistent decisions using good judgment. 	<ul style="list-style-type: none"> • By the end of FY 1998, the IRS will initiate a pilot program to centralize penalty relief issues in a service center. If this pilot proves successful, all penalty relief issues may be recommended for centralization in one or two centers. This initiative should result in more consistent application of penalty relief/abatement determinations. • The IRS is developing additional training on penalty abatement for use by internal and external stakeholders.

PROBLEM #7**PENALTY ADMINISTRATION** *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• One district in the Western Region completed a Penalty Advocacy Project, which they will submit to the National TA through the Regional Taxpayer Advocacy Council.• The Midstates Region TA completed an Advocacy Project on Penalties and made recommendations to the National Office.	<ul style="list-style-type: none">• Major Issue Code analysis revealed that the failure to process penalty abatement correspondence is the number one cause of Problem Resolution Program cases in Midstates Region.	<ul style="list-style-type: none">• The IRS will survey Examination division chiefs to determine the extent to which penalties are inappropriately negotiated. Any corrective action will be based on the results of this survey.• In the Southeast Region they are conducting an advocacy project to determine the root cause of penalties. This project will continue during FY 1998.• The team will continue the project for FY 1998 including root cause determination and analysis.
TA Comment: The decision by the IRS to remove penalty data from compliance measures is a positive sign which promises improvement in this area.		

PROBLEM # 8 ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC)

Description of Problem: Many excess EITC claims do not result from fraud or intentional or willful disregard of rules but from incomprehension. The law is very complex and is targeted at taxpayers who make less than \$25,000. Because the EITC is a refundable tax credit, taxpayers and practitioners may be inclined to claim the EITC even when they are unsure of their eligibility. We must focus IRS education and assistance toward helping taxpayers file correct claims. IRS review and enforcement must identify and deny erroneous claims while minimally impacting legitimate refund claims.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS continued its emphasis on outreach for potential EITC taxpayers, focusing on both educating and informing the targeted audience about the credit and educating them about the new laws and how changes may affect their eligibility. As examples of these outreach activities: <ul style="list-style-type: none"> ◦ The IRS provided information to employers via the SSA/IRS Reporter (sent to over 6 million employers) and a letter to the top 100 employers most likely to employ taxpayers eligible for the EITC. ◦ The IRS sent a notice to approximately 7.5 million EITC recipients informing them of the Advanced EITC (AEITC) option. ◦ The IRS promoted the AEITC to members of targeted groups at trade shows and conventions. ◦ The IRS continued the special emphasis campaign for the credit, which includes distribution of products such as stuffers, posters, employee brochures, drop-in ads, etc. Many products are available in Spanish and English. These printed products are used by local IRS offices in community outreach. 		<ul style="list-style-type: none"> • The IRS will continue sending information to employers. An EITC message is an integral part of the 1998 filing season kick-off. • The IRS is conducting market research to determine the effectiveness of the strategies and materials used to publicize EITC. Results from this research will be used to design the campaign for 1999.

PROBLEM # 8 ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC) *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • An EITC Advocacy Group was formed by Western Region's TA to address EITC Administrative Issues. • The purpose of the EITC project is to encourage and help taxpayers who are entitled to EITC to claim the credit, decrease taxpayer burden related to EITC administration, and to address EITC noncompliance. • The advocacy project group designed and developed the Earned Income Tax Credit Checksheet, based on national data regarding the most common errors made by practitioners, for inclusion in the "1997 Package X." • The EITC group made recommendations to forms and instructions. • The EITC group recommended changes for the 1998 filing season that were incorporated in the Request for Information Services (RIS). • The group developed legislative recommendations included in this report. 	<ul style="list-style-type: none"> • The EITC Checksheet will alert the tax practitioner community of new tax law changes regarding EITC, help in educating and informing tax preparers of existing EITC regulations, and reduce their number of errors. 	<ul style="list-style-type: none"> • Results of the checksheet will be determined after the 1998 filing season, when we can measure and compare the math error rate for practitioners to the prior year.

PROBLEM # 8 ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC) *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The 1996 revenue protection strategy used for Tax Year (TY) 1995 tax returns delayed refunds. The IRS implemented additional authorities to assist employees resolve these cases for TY 1996. • The instructions for individual income tax forms include questionnaires and worksheets for taxpayers to determine their allowable EITC. TY 1997 return instructions reflected minor changes from prior year instructions. 	<ul style="list-style-type: none"> • The IRS made some changes to forms and instructions; they did not adopt other suggested actions. • Due to competing priorities some, RIS recommendations were not completed for the 1998 filing season. • The math error process used for TY 1996 should have shortened the time compared with the revenue protection strategy used for TY 1995. According to the draft GAO report on the 1997 Filing Season, there were not many complaints or an increase in the number of PRP cases or hardship requests for refunds. • IRS reports suggest errors relating to the EITC are among the top five errors made by taxpayers and tax preparers. Available data is not sufficient to identify specific trends or corrective actions needed. 	<ul style="list-style-type: none"> • The working group will continue to develop simplifying forms and instructions for EITC. • The IRS will implement modifications in the 1999 filing season. • The IRS is expanding use of math error process for TY 1997 to address missing or invalid TINs used to claim EITC. A pre-filing letter to primary taxpayers with invalid TINs is being prepared to give them the opportunity to resolve discrepancies before filing, thereby avoiding the math error process. • The IRS revised instructions for TY 1997 to highlight guidelines for credit eligibility. Pub. 596, Earned Income Credit, was revised to remove duplicate information and improve readability. • The IRS will perform market research on the most effective ways to communicate EITC provisions of tax law. Results will be used to revise current products and/or develop new products to improve EITC communications and reduce errors. • Substantial funding has been appropriated specifically for EITC. Extensive, cross-functional activities are planned for FY 1998 and subsequent years. • Tax practitioner and taxpayer ideas, and analysis of returns with EITC errors will be used to refine data collection coding to determine corrective actions needed.

PROBLEM # 8 ADMINISTRATION OF EARNED INCOME TAX CREDIT (EITC) *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> Correspondence Examination previously worked missing/invalid TIN cases and experienced a 50% no change rate. In FY 1997, these cases were worked through the math error process. In FY 1997, Correspondence Examination worked taxpayer cases with the criteria identified during the TY 1994 Criminal Investigation studies. 	<ul style="list-style-type: none"> The projected no change rate for the cases started in FY 1997 by Correspondence Examination is 10% - 15%, significantly lower than the 50% rate experienced the previous year. Thus, in FY 1997, this program more effectively focused on taxpayers who were not entitled to claim EITC than it did in previous years. 	<ul style="list-style-type: none"> Enforcement activity will continue this year with significant activity in Adjustments (math error) and Correspondence Examination areas. Toll-free telephone service will be available for all product lines, tax law, notice inquiries and the new EITC Fraud Hotline, specifically for EITC inquiries, which will be available 24 hours a day - seven days a week. Other functions of the Service will handle taxpayer education and walk-in activities. Other issues being worked at this time include the application of the Taxpayer Relief Act of 1997 and the messages that will go out to the taxpayers in relation to this Act. Meetings are continuing with all functions to plan and implement this initiative.
<p>TA Comment: Absent legislative simplification in this area, the IRS is continuing to make some improvement in an area burdened with abuse and complexity.</p>		

PROBLEM # 9**LACK OF CONCERN FOR TAXPAYER PROBLEMS/ISSUES**

Description of Problem: The training or experience level of public contact employees does not allow them to address taxpayers' situations adequately. Toll-free telephone systems do not allow for taxpayers' questions and concerns to be addressed with local consideration (e.g., community property laws.)

Responsible Official: Various

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The Regional and field Taxpayer Advocates continuously hold meetings with tax practitioners, congressional offices and taxpayer groups to listen to their concerns about tax administration. They offer assistance as appropriate.• The regional and field advocates consider taxpayer concerns on a daily basis. Many of these concerns become the basis for Advocacy Projects.		

PROBLEM # 9 LACK OF CONCERN FOR TAXPAYER PROBLEMS/ISSUES *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS has taken great strides at local and national levels to find out and understand taxpayer concerns. For example, surveys and focus groups have been conducted, and others are being planned for next year. Compliance managers attend local Continuing Professional Education (CPE) and Bar Association meetings. Joint meetings for Compliance employees and tax practitioners are held to discuss matters of mutual concern. Customer Service employees are evaluated on their ability to communicate with their customers. • The Customer Service portion of the Internal Revenue Manual (IRM (21)00) rewrite was completed. • The IRS implemented a new training strategy which includes using the Customer Service Technical Readiness Assessment (CSTRA). The general competency module for CSRs focuses on: communication; customer attitudes; coaching for productivity and decision making. 	<ul style="list-style-type: none"> • Several legislative recommendations and administrative proposals resulted from practitioner and taxpayer concerns. • Recent revision of IRM (21)00 contains the necessary procedures to answer all taxpayer questions that must be addressed in the context of local considerations. • To date, general CSTRA has been provided to toll-free CSRs in 10 service centers and six district offices. 	<ul style="list-style-type: none"> • Focus group interviews are being planned for next year. • The IRS will issue IRM (21)00 and conduct CPE Training. • The Customer Service Training Institute in Atlanta is developing a module on researching IRM (21)00. • The IRS is developing a video teleconference on researching IRM (21)00. • The roll-out of CSTRA will continue for FY 1998 and beyond.

PROBLEM # 9 LACK OF CONCERN FOR TAXPAYER PROBLEMS/ISSUES *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • Many calls are routed to areas in the country where Customer Service Representatives (CSRs) may be unfamiliar with certain situations (e.g., community property laws in the state where the caller resides). Most tax laws are the same no matter where the taxpayer lives. However, if a question involves community property or common law marriage, the CSR will ask for the caller's location, so that the response can address those local considerations. The IRS encourages additional training on localized issues to ensure appropriate responses. • The TA formed a task force to consider all aspects of training related to PRP. • The TA worked with Collection, Appeals and Chief Counsel to issue written guidelines for Taxpayer Bill of Rights 2. • The TA worked with Appeals to allow hearing impaired individuals to communicate with them. • The TA worked to systemically abate erroneously assessed late-filing penalties for taxpayers located in disaster areas. • The TA worked with Treasury and the Tax Forms Division to allow a dependency exemption to parents of children who were born and died in the same year, without having to obtain a Social Security Number. 	<ul style="list-style-type: none"> • No specific actions have been necessary. All CSRs are trained with the same tax law courses throughout the country. Some will be much more versed on specific issues within their own state because they have dealt with those calls frequently in the past. Now CSRs everywhere will develop expertise with specific state laws as they have to research them. • The group made recommendations related to enhancing training and communication regarding taxpayer rights and customer service throughout the service. 	<ul style="list-style-type: none"> • More emphasis will be made in the Customer Service training, to make all CSRs aware of specific state issues and how to research those issues. • The group and subgroups will continue to develop several products to improve the way IRS employees interact with the taxpayer.
TA Comment: Acceptable progress has been made in this area.		

PROBLEM #10: LACK OF ACKNOWLEDGMENT OF CORRESPONDENCE AND PAYMENTS

Description of Problem:

- ▶ Unnecessary correspondence is generated due to the lack of acknowledgment or untimely IRS response.
- ▶ Customers are not informed of the adequacy of audit reconsideration substantiation and penalty abatement requests.
- ▶ IRS assistants cannot confirm to callers that IRS received taxpayer submissions or acted on them.
- ▶ IRS computer systems do not permit timely verification of receipt.
- ▶ Third parties are not sure that IRS received their responses to levies or summonses.
- ▶ Amended returns are not processed timely by the IRS.

Responsible Official: Chief Compliance Officer and Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS has not taken actions to acknowledge all taxpayer correspondence. • No specific actions were taken to address penalty abatement requests in FY 1997. These requests received the same treatment as other taxpayer correspondence. The goal is to answer all correspondence within 45 days of receipt. 	<ul style="list-style-type: none"> • No action was taken to give priority to penalty abatement requests. Such action would unfairly delay responses to taxpayers whose correspondence was received earlier than that from taxpayers requesting penalty abatements. Only 5.5% of correspondence was not answered within 45 days in FY 1997. The average time from date of receipt to resolution of the taxpayer's request was 26.8 days. 	<ul style="list-style-type: none"> • A task group is looking into audit reconsiderations and recommendations will address the timeliness and method of communication issues. The group is expected to make recommendations in 1998. • No specific actions are planned regarding penalty abatement requests. However, two Customer Service objectives are: reduce the percentage of cases not answered within 45 days and reduce the average number of days for resolution.

PROBLEM #10: LACK OF ACKNOWLEDGMENT OF CORRESPONDENCE AND PAYMENTS (Continued)

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • Most responses from taxpayers are noted by a history item or case control on the taxpayer's account, which indicates an action was taken or the case is being worked by a service center examiner. Sometimes, however, when the taxpayer responds to notices proposing additional assessments, (e.g., Underreporter notices) the association of the response may not occur before the taxpayer calls to see if the IRS received it. In this case, the Customer Service Representative (CSR) makes a referral or advises the taxpayer to call back at another time. If the taxpayer calls about a payment made more than four weeks previously that does not appear on IDRS, the CSR will probe for additional information to determine the status of the payment. • No actions were taken in FY 1997 to acknowledge third party submissions such as bank remittances pursuant to IRS levy or summons requests. 	<ul style="list-style-type: none"> • Requirements to input a history item to indicate actions taken or to establish case controls, were included in the revised Customer Service Handbook of the Internal Revenue Manual (IRM). • IRS' Collection function has not received feedback from third parties to indicate a problem in this area. Bank levies issued are a one-time attachment of assets. If there is money in the account, the third party remits it and there is no further obligation; if there are no funds to remit, the levy is returned indicating no funds, which relieves the third party of further obligation. • A levy release is sent for a wage levy once the balance due is paid; if the taxpayer is not employed by the third party, the levy is returned to indicate that and the employer is relieved of any obligation. 	<ul style="list-style-type: none"> • The IRS' Customer Service organization will conduct IRM procedural reviews and visitation reviews. The process of associating correspondence and closing cases will be reviewed. • IRS' Collection function will contact the Office of the TA to secure the source/nature of complaints received. They will analyze the information received and evaluate possible solutions for this problem.

PROBLEM #10: LACK OF ACKNOWLEDGMENT OF CORRESPONDENCE AND PAYMENTS *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> The TA made recommendations to the responsible officials to improve the processing of Amended Returns as part of the Claims Advocacy Project. The response from the responsible official indicated that the issues have been resolved. However, MI Code analysis does not support this conclusion. 		<ul style="list-style-type: none"> The Midstates Regions is doing a follow-up review of claims cases to determine if further action is necessary. Recommendations are expected during 1998.
TA Comment: This is an ongoing area of taxpayer frustration. Within existing resources, the IRS believes it would require the diversion of resources from other programs to acknowledge all correspondence.		

PROBLEM #11: MAINTAINING TAXPAYERS CURRENT ADDRESS

Description of Problem: A lack of notification directly to the IRS often means taxpayers do not receive the needed forms, notices, and/or other correspondence. This is most critical for divorced or separated taxpayers. The IRS does not always take adequate steps to update its files with taxpayers' current or change of addresses.

Responsible Official: Chief Taxpayer Service and Chief Compliance Officer

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">On July 1, 1997, the United States Postal Service (USPS) required that all First Class mail pieces mailed at automation (i.e., discounts) postal rates be in standard format and validated against the National Change of Address (NCOA) database within six months before mailing.The IRS has signed an Inter-Agency Agreement with the Postal Service allowing the IRS to use the NCOA FAST Forward System.Chief Counsel ruled that the IRS may convert addresses on outgoing informational mail (i.e., forms, etc.) to the Postal standard format using the current address based on USPS' NCOA database.	<ul style="list-style-type: none">The IRS initially tested the NCOA System on the mailing of Forms 941. We reduced undeliverable mail and updated the Masterfile with new address information for mail returned as undeliverable.To date more than 140 million records have passed through NCOA for all tax packages, 3.3 million addresses were removed from the mailouts as undeliverable. More than 6.2 million addresses were corrected.Chief Counsel said there was no legal impediment in pursuing USPS' NCOA database to update IRS' masterfiles provided the IRS prepared a business case to support it.	<ul style="list-style-type: none">A Business Case is being prepared to support permanent use of NCOA.

PROBLEM #11: MAINTAINING TAXPAYERS CURRENT ADDRESS (Continued)

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS asked that Chief Counsel revise Rev. Proc. 90-18 to enable the IRS to accept third-party information to change Taxpayer address information on the Masterfile. • Several Requests for Information Services have been prepared and submitted to Information Services to: <ul style="list-style-type: none"> ◦ Run all masterfiles against the NCOA database for standardization, by using an approved software product ◦ Run all outgoing mail against the NCOA FAST Forward System to ensure we have the current mailing address. 	<ul style="list-style-type: none"> • Counsel recommended a Treasury Regulation instead of a change to the Rev. Proc. • Until Treasury revises the Regulation, the IRS will not change addresses on outgoing notices and the Masterfile. • Meanwhile the IRS will image the address change form and mail it to the taxpayer. • We will include address changes identified for the TeleFile package in the TeleFile database to allow taxpayers who moved to file via TeleFile. 	<ul style="list-style-type: none"> • Per Chief Counsel's recommendation, a request for a Treasury Regulation is being prepared. • The development of interface programs on the print systems to include address updating is underway (by outside contractor support) and estimated to be ready for testing by January 1, 1998. Printing contracts with tax package vendors will require that they use the updating software.
TA Comment: The use of the USPS database is a positive step in obtaining current mailing addresses.		

PROBLEM # 12: SEPARATE MAILOUT OF MATH ERROR NOTICES AND REFUND CHECKS

Description of Problem: Taxpayers are receiving refunds for less than they were expecting before receiving the notice with the explanation. This has resulted in increased telephone inquiries.

Responsible Official: Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS held discussions with the Financial Management Service (FMS), which mails refund checks.		<ul style="list-style-type: none">• The Philadelphia Service Center and the FMS are working on a joint pilot where FMS will print and mail the math notice in the same envelope with the refund check. If the pilot is successful, the IRS will explore the possibility of implementation in 1999.
TA Comment: Based on early feedback, this appears to be a very positive development.		

PROBLEM #13**DIVORCED AND SEPARATED TAXPAYERS**

Description of Problem: The IRS is unable to reach all parties on joint accounts of separated or divorced taxpayers and to cross reference/update related assessments on the Non-Master File. Innocent and Injured Spouse problems cause tremendous problems. The IRS does not recognize divorce decree decisions.

Responsible Official: Chief Taxpayer Service and Chief Compliance Officer

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • A Joint Return Study Report addressing these issues was completed by the IRS and is being reviewed by Treasury. • The IRS updated Publication 594, Understanding the Collection Process, to provide additional information about the innocent spouse provisions. • A new form, Form 8857, Innocent Spouse Claim, and instructions, is being developed. • Although Non-Masterfile and Masterfile information cannot be cross referenced, we train IRS employees to check both databases on post-audit inquiries when the taxpayers' marital history shows potential Non-Masterfile assessments. Also, to prevent potential innocent spouse problems on an ongoing audit, IRS procedures require a waiver from both spouses on a proposed deficiency. Where appropriate, assessments are made on both Masterfile and Non-Masterfile for joint filers who are separated. 	<ul style="list-style-type: none"> • No action is planned to recognize decisions made in divorce decrees. If "liability by divorce decree" were the standard, the IRS would be required to deal with the complexities of divorce issues in 50 states and each state's domestic relation laws. The Joint Return Study Report contains additional supporting arguments to reject this proposal. 	<ul style="list-style-type: none"> • Beyond the recommendations in the report, IRS continues to take actions to locate and collect joint liabilities from spouses living apart. We issue a final notice to both spouses' address when taxpayers are separated/divorced. • Pending legislation (IRS Restructuring and Reform Act), if enacted, will make innocent spouse status easier to obtain. • The final draft of Form 8857 has been circulated for comments and will soon be forwarded for the approval of Treasury/OMB. Taxpayers can use this form to apply for innocent spouse relief. • The IRS will establish a team to develop a strategy to incrementally migrate specific Non-Masterfile tax account data to the Masterfile. We will then request that programming changes begin the migration process.
<p>TA Comment: This is a long-term problem requiring continued attention. Although FY 1997 improvements appear to be minimal, several proposals have been made by the TA and others are being developed by the IRS which may provide relief in this area.</p>		

PROBLEM # 14 : MISAPPLIED PAYMENTS

Description of Problem: Taxpayers are burdened each year with having to stop payment on checks submitted to the Service and send replacement checks.

Responsible Official: Chief Taxpayer Service and Chief Compliance Officer

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">The IRS fully implemented the Electronic Federal Tax Payment System (EFTPS) for use by the business taxpayer in 1997.	<ul style="list-style-type: none">EFTPS has proven to be significantly less error prone. Taxpayers should see a decrease in the potential for misapplied payments and/or lost checks and the associated burden to them.	<ul style="list-style-type: none">The IRS will promote and market the use of EFTPS for additional voluntary taxpayers.The IRS is pursuing alternative payment options, such as debit and credit card use, which will further reduce the incidence of payments by check received in the service centers.The IRS is in the process of developing a new system to process payments received in the service centers. The new system will have the capability of up-front error correction and on-line access to the Entity Index File (EIF), which will enable proper posting of payments to the taxpayer's account. The pilot site is the Austin Service Center and is scheduled to begin February 1998, with possible roll-out to other service centers in September and November 1998.The IRS is in the process of purchasing new mail sorting and check detection equipment. Check detection equipment will increase the opportunity to identify checks concealed within tax documents at the first point of entry into our processing. This will decrease taxpayer burden with having to send replacement checks and make stop payment requests.

PROBLEM # 14 : MISAPPLIED PAYMENTS *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The IRS completely rewrote the Internal Revenue Manual (IRM) for identifying and resolving payment tracer inquiries.• Customer Service assistants and tax examiners research all payment inquiries if the taxpayer has a canceled check or other proof of payment.• Payment tracer procedures require extensive research of all payments processed by IRS. When we recognize proof of payment but the credit cannot be found, the IRS will post the credit to the taxpayer's account.	<ul style="list-style-type: none">• The IRM will be in effect on January 1, 1998.	
TA Comment: I concur with these actions.		

PROBLEM # 15: DELAYS IN OFFER-IN-COMPROMISE (OIC) PROCESSING

Description of Problem: The number of OICs has increased due to changes in policy toward their consideration and acceptance; however, IRS' ability to respond timely and apply the process consistently has added to taxpayers' frustrations. Taxpayers are burdened by a lengthy review process and there is a lack of clarity and consistency in the program. Many offers reveal a need for education about the purpose and requirements of the program.

Responsible Official: Chief Compliance Officer

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The Form 656, Offer in Compromise, instructions, and the financial statements were simplified and released in February 1997.• To improve on the consistency and decrease the lengthy investigation process, district offices were encouraged to use OIC specialists instead of general revenue officers to work offers.	<ul style="list-style-type: none">• The number of unprocessable i.e. incomplete, offers declined by 20%. Offers closed within six months increased to 64% for FY 1997 as compared with 59% for FY 1996.• Most district offices adopted the suggestion to use OIC specialists, and District Counsel only reviews offers that are more than \$50,000; this decreases the review time for OIC's.	<ul style="list-style-type: none">• During FY 1998, the IRS will make changes to further simplify Form 656 and its instructions.• District offices will continue to be encouraged to use OIC specialists instead of general revenue officers to work offers.
TA Comment: This is an area of continuing concern, particularly in the tax practitioner community. This will require close attention during FY 1998. Two IRS task forces, one sponsored by the TA and one sponsored by the Collection function, are planned for the January-February timeframe to look at this process.		

PROBLEM # 16: COMPLIANCE BURDEN ON SMALL BUSINESS

Description of Problem: Tax withholding, reporting, and filing requirements heavily burden small businesses. There is little coordination between local, state, and federal agencies to help small businesses learn information. Educational and compliance initiatives need to be directed toward self-employed taxpayers.

Responsible Official: Chief Taxpayer Service, Chief Compliance Officer, Director, Small Business Affairs

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> With the assistance of Corporate Education, Volunteer Assistance, Compliance Education, and the Association of Small Business Development Centers (ASBDC), the Small Business Affairs Office (SBAO) produced and then successfully piloted two video based training classes for small business owners/operators. The two video training modules "Starting Your Own Business" and "Record Keeping" present basic tax related information vital to anyone interested in starting a business and developing proper record keeping practices. In August 1997, the SBAO executed a Memorandum of Understanding with the Small Business Administration (SBA), to pilot the introduction of IRS small business informational tax publications, videos and CD-ROMs into selected SBA Business Information Centers (BICs). 	<ul style="list-style-type: none"> The training classes, piloted in San Antonio, Indianapolis and Buffalo, featured the videos supplemented by IRS and private industry instructors. The ASBDC provided classroom facilities and marketing expertise. The class attendance tripled that of typical IRS small business workshops. Students were very pleased with every aspect of the training as evidenced by their written evaluations. Following the pilots, each IRS district office was provided with twenty copies of the videos for their training and video lending programs. This program will put nearly 400,000 IRS publications in the hands of new businesses. 	<ul style="list-style-type: none"> The pilot sites are in El Paso, Hartford, Nashville, San Francisco and Seattle. If customer surveys support the program, then the pilot will be rolled out to all of the SBA BICs.

PROBLEM # 16: COMPLIANCE BURDEN ON SMALL BUSINESS (Continued)

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The BICs are administered by the SBA in partnership with private industry and provide a range of services for start-up businesses. BIC services include an array of business information available via computer hardware/software, reference information and counseling through the Service Corp of Retired Executives (SCORE). • The SBAO and the ASBDC reached an agreement in October 1997 to provide four IRS small business informational publications in each of the nearly 1,000 Small Business Development Center (SBDC) locations. The four publications are: <ol style="list-style-type: none"> 1. Publication 1518, <i>1998 Tax Tips Calendar</i>; 2. Publication 583, <i>Starting a Business and Keeping Records</i>; 3. Publication 910, <i>Guide to Free Tax Services</i>, and 4. Publication 1769, <i>Internal Revenue Service, It's in Our Name</i> Appeal Rights, & Claims for Refunds 		<ul style="list-style-type: none"> • Language was developed by the SBAO for inclusion in nine publications to inform the public about SBREFA, the office of the SBA Ombudsman and the regional fairness boards. These publications are scheduled to be published in 1998.

PROBLEM # 16: COMPLIANCE BURDEN ON SMALL BUSINESS *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The SBAO and Legislative Affairs provide oversight for Servicewide administration and implementation of the Small Business Regulatory Enforcement Act (SBREFA). The Act, passed in March of 1996, is designed to give small business a greater role in the federal regulatory process. The SBAO Director requested and received the appointment of an IRS SBREFA executive in each region to implement and administer the Act in their respective regions. • The Act mandated the creation of an SBA Ombudsman charged with administering ten Regional Fairness Boards established to receive comments from small business regarding federal agency enforcement actions. Federal agencies are required to develop clear guidelines explaining how small business can comply with new regulations and establish the means to effectively disseminate information to small business. Federal agencies must also carefully consider the impact of new regulations and determine whether there are better alternatives. Each year, the SBA Ombudsman submits a report to congress on federal agency SBREFA compliance. 		

PROBLEM # 16: COMPLIANCE BURDEN ON SMALL BUSINESS *(Continued)*

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The Fairness Boards hold meetings in each SBA region to receive such comments and to allow federal agencies to report on their progress in conforming to the provisions of SBREFA. • The IRS provided speakers at two regional public meetings as requested. The SBAO coordinated IRS' participation by writing the speeches, arranging for the speakers, and ensuring TA presence to assist taxpayers who raised concerns. Staff members attended each public meeting to provide input on issues raised during the meetings as well as gather information from testimony presented. • The SBAO provided information to each Regional Fairness Board member on recurring issues (Electronic Federal Tax Payment System and the Tip Rate Determination and Education Program) to enhance their knowledge of each topic. • Additionally, the SBAO took steps to ensure that IRS personnel are versed in SBREFA and able to respond to SBREFA related comments and inquiries. For example, the SBAO developed two communication plans for IRS personnel and developed and distributed SBREFA desk aids for public contact personnel. 	<ul style="list-style-type: none"> • This helped educate both business owners and the public. By providing up-front education, the IRS helps to prevent problems and the need for audits. 	<ul style="list-style-type: none"> • The IRS is continuing to direct resources to the multi year compliance program for the Tipped Restaurant Employee Strategy to improve tip reporting through Tip Rate Determination Agreements (TRDA) and the Tip Reporting Alternative Commitment (TRAC).

PROBLEM # 16: COMPLIANCE BURDEN ON SMALL BUSINESS (Continued)

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none"> • The IRS worked with the Information Reporting and Program Advisory Committee (IRPAC) to carry out recommended changes to withholding and reporting requirements. • The IRS worked with the Social Security Administration and Colorado to develop a Federal-State Reference Guide to help state and local government employers on social security coverage and FICA reporting requirements; conducted outreach programs to promote the guide. • The IRS implemented an EIN Outreach Project in Seattle and Buffalo. • The IRS initiated "Chance for Change" joint meetings with industry representatives and practitioner groups. • The IRS initiated an Educational Outreach Initiative (test) designed to improve compliance through sharing of information and voluntary taxpayer behavior vs. traditional enforcement means. • The IRS developed new training materials, "<i>Independent Contractor or Employee?</i>" to identify, simplify, and clarify, relevant facts to evaluate when dealing with worker classification issues. 	<ul style="list-style-type: none"> • Improved understanding of withholding, reporting, and filing requirements. • External stakeholders received training to help them better understand and comply with their filing requirements. • Assisted and educated business filers on their tax requirements and increased their understanding of tax law. • Opened lines of communication and established a forum for open dialogue. • We discussed specific issues of mutual concern. • We established a better understanding of the particular industry or market segment from an outsider's perspective. • More focused training for employees gives them the tools they need to better administer the tax law and ensure voluntary compliance. This training material was also put on the Internet for ease of access. 	<ul style="list-style-type: none"> • IRS will continue to conduct outreach efforts to better educate taxpayers on their return filing responsibilities. • IRS is developing a Federal Tax Deposit (FTD) video describing the deposit rules in very simple terms. This video will be available to internal and external stakeholders. • IRS will continue to interact with local industry and trade associations and tax practitioners.
<p>TA Comment: This is a major ongoing concern of the TA. The impact of new tax legislation on small business needs to be considered before enactment. The TA's proposal on scoring burden would greatly assist small businesses.</p>		

PROBLEM # 17: SUBSTITUTE FOR RETURN (SFR) ISSUES

Description of Problem: Some taxpayers have reported delays in the processing of Automated Substitute for Returns at the service centers.

Responsible Official: Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">No specific actions were taken to address this problem in FY 1997 since there were no apparent delays or backlogs in processing these cases..	<ul style="list-style-type: none">Prior to the compilation of this list, the Executive Officer for Customer Service Operations was unaware of any significant problems related to Post SFR processing.Actions and planned actions related to the Automated Substitute for Return (ASFR) Program are discussed under Problem # 9, but there were no significant delays or backlogs in processing ASFR reconsideration cases in FY 1997.	<ul style="list-style-type: none">The Executive Officer for Customer Service Operations staff will work with the TA 's Office to determine the nature and severity of this problem. Further actions will be based on the results of this determination.
TA Comment: This is a relatively new issue and will be closely reviewed in FY 1998		

PROBLEM # 18: LENGTH OF TIME PRP CASES ARE IN EXAMINATION

Description of Problem: Many taxpayers express frustration with the length of time it takes to resolve Problem Resolution Program cases that originated in the Examination function. Many of these cases are audit reconsideration cases and are sent to Examination to resolve.

Responsible Official: Chief Taxpayer Service and Chief Compliance Officer

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• The vast majority of PRP cases in Exam are audit reconsideration cases, which may take longer to close than the average PRP case. In FY 1997, the IRS' Examination function formed a multi-functional task force (including district, and service center examination, TA, Adjustments, Collection, and Customer Service representatives) to study all aspects of audit reconsideration cases, including the root causes of why a case becomes an audit reconsideration case and the time to close the case.	<ul style="list-style-type: none">• The task force is still in the data gathering stage and had not made any recommendations as of the end of FY 1997.	<ul style="list-style-type: none">• We anticipate the task force will make recommendations in FY 1998.• Examination staff will work with the TA's office to determine the causes of undue delays in handling PRP cases in Exam and to explore and implement potential solutions.
TA Comment: No comment at this time.		

PROBLEM # 19: COST TO TAXPAYERS OF ELECTRONIC FILING

Description of Problem: The cost of electronic filing is a burden to low income taxpayers who use electronic filing to receive refunds quicker.

Responsible Official: Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• TeleFile allows taxpayers to file their returns by telephone using a toll-free number. There is no cost to taxpayers who use this program.• Tax Counseling for the Elderly (TCE) and Volunteer Income Tax Assistance (VITA) provides electronic filing services at no charge.• Automated Walk-in Assistance and Electronic Transmission provide free electronic filing for taxpayers requesting assistance with return preparation.• The Assistant Commissioner (A/C)(Electronic Tax Administration (ETA) Office) began a process to develop contracts with private sector companies to provide electronic services that may offer nonpayment incentives to increase electronic filing.	<ul style="list-style-type: none">• In 1997, TeleFile participation increased to 4.7 million taxpayers compared with 2.9 million in 1996.• ELF returns filed by VITA sites increased from 226,300 in 1996 to 410,000 in 1997.• In 1997, IRS walk-in offices processed approximately 50,000 electronic returns.• In September 1997, the A/C (ETA) Office issued a Draft Request for Proposal (RFP) for public comment. Based on industry comments, the IRS issued a Request for Agreement (RFA) for non-monetary agreements on increased electronic filing volumes for the 1998 Filing Season. Non-monetary agreements might include the IRS granting privileges or administrative relief to offerors who commit to increase filing volumens. Responses for the 1998 filing season were due to IRS in late December 1997.	<ul style="list-style-type: none">• The IRS will revise the taxpayer profile for TeleFile and include the National Change of Address file to ensure delivery of the tax packages.• The IRS made 660 computers available and provided 2,738 software packages to support electronic filing at VITA sites.• This program will continue in walk-in offices throughout the regions.• The IRS will issue the RFP and review proposals. This could result in issuance of contracts for new programs to help increase the use of electronic methods of filing returns and paying taxes.
TA Comment: While the improvements made to the electronic filing program have been significant, the cost of filing electronically remain s expensive for low income individuals.		

PROBLEM # 20: AUTOMATED COLLECTION SYSTEM (ACS) LEVY RELEASES

Description of Problem: Problems exist with ACS levy releases, indicating that some are more lenient and some are very hard line, causing inconsistent treatment of taxpayers.

Responsible Official: Chief Taxpayer Service

Discussion of Actions Taken During FY 1997 to Address Problem	Results of Actions (If no actions were taken, include reasons for no activity.)	Discussion of Actions Ongoing or Planned for FY 1998 to Address Problem
<ul style="list-style-type: none">• No actions were taken in FY 1997 to address this specific problem.	<ul style="list-style-type: none">• This is the first time that this issue was identified as a specific serious problem to the Executive Officer for Customer Service Operations.• Processing variances may have evolved in ACS sites due to:<ul style="list-style-type: none">◦ development of local desk guidelines that often replace IRM 5500, ACS Procedures;◦ attitudinal differences among managers, spurred by dollar and related productivity measures;◦ inattention at managerial levels.	<ul style="list-style-type: none">• A new IRM section (IRM 21.23, Enforcement Actions), which provides more detailed, easily researchable information on levy release decisions was developed. This IRM, to be released on January 1, 1998, should replace most desk guides now in use.• The IRS will solicit feedback from regions and other stakeholders about perceived ambiguities in the ACS levy release process, and clarify as needed.• Dollar and other measures rewarding "hard line" attitudes were dropped. New indicators being developed.
TA Comment: This is a relatively new issue and will be closely reviewed in FY 1998.		

TAXPAYER ADVOCATE ACTIONS

ADVOCACY ACTIVITIES

Headquarters Advocacy Initiatives

TBOR 2 legislation heightened awareness of and increased activity in the arena of promoting taxpayer advocacy initiatives. The TA's Headquarters staff has been very active in initiating advocacy projects and strategies, supporting field advocacy efforts, responding to taxpayer inquiries, and providing ongoing participation in the development of new corporate processes and procedures. While the majority of problems faced by taxpayers can be corrected through administrative changes and proposals for procedural work improvements, legislative alternatives also are being explored and recommended as appropriate solutions.

The following summary presents a partial listing of the wide range of issues and activities in which the TA's office was involved during FY 1997 that have been resolved administratively:

Procedural Initiatives

Taxpayer Bill of Rights² (TBOR²) - Worked with Collection, Appeals, and the Office of the Chief Counsel to incorporate TBOR² provisions into the Collection Appeals Program and issued written guidelines to the field.

Collection Appeals Issues - Worked with the Collection and Appeal Divisions to prepare a memorandum to the field offices issuing guidelines for the return of levied monies and the withdrawal of liens provisions.

Installment Agreements (IAs) - Investigated a problem identified by Midstates Region with Revenue Officer (RO) Installment Agreements that were defaulting in error. These were cases that had three year review dates with a balance due of less than \$100,000. Usually these cases are reviewed systemically after three years and if the taxpayer has made monthly installments during the prior twelve months they remain in installment agreement status. A problem with an unusual number of these cases defaulting was identified. Apparently, when the review cycle field was made Year 2000 compliant, the review portion of the program was allowing agreements that were compliant to default in error to the RO. Two corrections have been made to the program which will reinstate the process that was eliminated.

Installment Agreements - A second problem related to the default of an installment agreement was corrected. In cases where IAs defaulted for taxpayers owing more than \$100,000, Revenue Officers were levying without notifying the taxpayer. This was an oversight on the part of the Service. When the installment agreement notice was revised to reflect recent TBOR² provisions to notify the taxpayer as to why the agreement had

defaulted and give appeal rights, this category of agreements (which procedurally do not get this notice) was not included. Therefore, unless the RO contacted the taxpayer and informed him of the default and appeal, the Service was not meeting its statutory requirements. The TA's staff alerted Collection to this problem. They agreed to develop a pattern letter similar to the one used for defaulted manually monitored installment agreements to meet this requirement.

Individual Master File (IMF) Notices - Problems were identified with the new annual reminder notices on balance due accounts which were required by TBOR2. When the first batch of notices were generated, they were intended for taxpayer delinquent accounts (TDAs) awaiting assignment that were more than a year old. Unfortunately, they also went to some currently not collectible accounts. As a result of the confusion, the notices were stopped. From feedback provided by field offices, the TA requested that changes be made to the process, including the wording of the notices. Some of the changes/corrections were implemented and others are still being considered.

Form 940 Notices - Erroneous taxpayer delinquency notices requesting Forms 940 (Federal Unemployment Tax Return) for TY 1996 were generated to former Form 942 filers who had household employees. These taxpayers are now required to file Schedule H, Form 1040. Approximately 90,000 erroronous notices were sent. As a result of feedback received from field TAs, the TA's staff alerted National Office Customer Service to the problem. As a result, they issued guidelines to their employees about how to handle these accounts and, apology letters were issued to the taxpayers who had received the notices. The TA provided feedback about this issue to our field offices.

Assistance for the Hearing Impaired - A congressional office received a complaint from a hearing-impaired individual regarding the fact that Publication 1660, Collection Appeal Rights, did not have information for hearing-impaired individuals about how to communicate a request to appeal a collection action. Working with an Indiana District TDD/TTY manager and a Headquarters Appeals Division analyst, the TA's staff determined that it is feasible to put this information in the publication. More importantly, however, this process resulted in TDD/TTY offices obtaining some important contact telephone numbers from Appeals. Appeals discovered that the assistors on these lines can act as a "go between" if a case for a hearing-impaired individual must go to an Appeals Officer.

Small Business Job Protection Act - As a result of a contact from an Omaha PRP caseworker, the TA learned that some service center entity section employees were not aware of the interim procedures that had been issued by Headquarters to implement a provision of the Small Business Job Protection Act. This section allows taxpayers who file late elections for S Corporation status to request relief for reasonable cause. Because the Office of the Chief Counsel has not yet completed the revenue procedure for the 1997 filing season, service centers were instructed to allow any election for TY1996 that was filed by February 15, 1997 with a request for a reasonable cause exception for late filing; as long as that request met the standard reasonable cause provisions. Some employees

mistakenly denied the late filed requests and told taxpayers that they would have to get a letter ruling. After contacting Chief Counsel and an Entity employee in Headquarters, the TA's staff was able to resolve the Omaha problem. Subsequently, the revenue procedure was issued and all service center Taxpayer Advocates were subsequently alerted.

Form 11C (Occupational Tax and Registration Return for Wagering) - The Taxpayer Advocate for Service Center Operations alerted the TA's staff to a delay in the mail out of blank Forms 11C for the tax period beginning July 1997. This delay impacted about 11,000 filers. As the result of contact with Customer Service, a decision was made to allow taxpayers a grace period of 30 days (July 1 through August 1) to file their returns without being liable for a Failure-to-File (FTF) penalty. The relief was given on a case by case basis per taxpayer request. Customer Service issued guidelines to employees about how to handle these cases.

Dependency Exemption for Children Who Died in the Year of Birth - Due to a change in the law, the IRS had planned to require the parents of a child who died in the year of birth to obtain a Social Security Number to claim a dependency exemption for that child. While the law allows an exemption even if a child lives only momentarily, IRC section 151(e) was recently changed to require that "No exemption shall be allowed. . . unless the Taxpayer Identification Number (TIN) of such individual is included on the return. . ." The TA believed that requiring the grieving parents of a child, who may have lived only hours or days, to apply for a Social Security Number (SSN) (which would later need to be canceled) was clearly an unintended consequence of this change. At a Tax Forms Coordinating Committee (TFCC) meeting about Form 1040, the TA's staff proposed developing an alternate way of helping taxpayers in this situation and contacted the Treasury Department TFCC representative to discuss this issue. Several options were developed to avoid placing taxpayers in this position and allow them to claim the exemption without applying for an SSN. The Tax Forms Development Branch eventually accepted an option that requires parents (who do not already have an SSN) to submit a copy of the birth certificate with the return. This procedure is reflected in the 1997 Form 1040 instructions.

Late Penalties Erroneously Assessed In Disaster Areas -The Taxpayer Advocate in the Midstates Region found that the Failure to Pay and Failure to File penalties were being assessed against taxpayers in flooded disaster areas in North Dakota (ND), South Dakota (SD) and Minnesota (MN). There were two extended due dates: taxpayers in ND and SD and 44 counties in MN were granted a blanket extension until May 30, 1997. The IRS then granted another extension until August 15, 1997 for the most critical counties. The Taxpayer Advocate's office asked the Service to do a recovery effort and to initiate abatement of penalties. This course of action was implemented, thereby eliminating any potential taxpayer burden.

Other Advocacy Efforts

- **Centralized Audit Reconsideration Project** - The Taxpayer Advocate convened a multi-functional working group, consisting of Examination, Customer Service and the TA's Office, to implement the Centralized Audit Reconsideration project, originated by the Taxpayer Advocate's office at the Fresno Service Center (FSC). The group is working to expeditiously implement the project nationwide, has met several times to resolve outstanding issues, and will draft a report to Customer Service Operations recommending national implementation of this project during FY 1998. Included among the group's activities are the following:
 - Preparing Internal Revenue Manual procedures,
 - Visiting the Central Audit Reconsideration unit to observe the operation,
 - To develop an equitable and consistent process, polling other centers to determine their procedures and secure appropriate documentation, and
 - Obtaining Office of Management and Budget (OMB) Approval for necessary forms and the Documentation Requirements booklet developed by the FSC.
- **Tax Forms Coordinating Committee** - Participated in the clearance of all new and revised tax forms.
- **Filing Season Readiness Committee** - Participated in preparing for the 1997 filing season by assessing the organization's planning process and field readiness to handle return processing and provide answers to taxpayers' tax law and account inquiries.
- **Toll Free Access Fact Sheet** - Developed a fact sheet for Congressional inquiries and taxpayer assistance.
- **Individual Taxpayer Identification Number (ITIN) Math Error** - Participated on the steering committee to establish procedures for the Earned Income Tax Credit and ITINs.
- **Publication 1320 (Operation Link)** - Revised this publication which is used primarily by the tax practitioner community. It contains information about PRP and the other services/programs available to the tax return preparers.
- **Publication 1546 (The Problem Resolution Program of the IRS)** - Revised this publication which is used by taxpayers who have unresolved problems with the IRS.
- **Publication 1237** - Revised and updated PRP language in the Legislative Affairs' Guide to IRS for Congressional Staff.

Administrative Initiatives

The Taxpayer Advocate conducted a national Problem Resolution Continuing Professional Education (CPE) session on January 29-31, 1997. The 20th anniversary

of the Problem Resolution Program was recognized during the session. In addition to the CPE, the Taxpayer Advocate and his staff were involved in a number of initiatives during the year, including:

- Working with the Center for Conflict Management to develop a pilot course on “Working With Taxpayers” that was given to PRP and Collection personnel in the North Florida District.
- Developing a standardized Grade 14 position description that reflects the increased responsibilities of field taxpayer advocates resulting from district consolidations and TBOR2 mandates.
- Developing a Taxpayer Advocate web site on the IRS Home Page which can be accessed by the public on the Internet, a strategy to increase public accessibility to the Problem Resolution Program. In addition, the Taxpayer Advocate has established an intranet site that is accessible by IRS and other federal government employees.
- Initiating a series of quarterly meetings with national office functional business representatives. Meetings have focused on the changing role of the Taxpayer Advocate, the implications of TBOR2, and enhancing effective working relationships to improve service to taxpayers.
- Reviewing the entire PRP training curriculum, completing a training needs assessment, and continuing to work with the Corporate Education Leadership Institute to create a revised curriculum that will meet future training needs.
- A group of PROMIS users and National Office personnel working with the Electronic Performance Support System Institute has started to develop a computer-based on-line help system for PROMIS. This will enhance the skill of employees and enable them to respond to taxpayer inquiries more expeditiously.

Field Advocacy Council Activities

Each of the four regional offices has established an advocacy council that serves as a steering committee for field advocacy efforts. In FY 1998, a fifth advocacy council will be established for service center field activities.

The goals of the advocacy councils are 1) to identify issues and processes involving significant taxpayer burden issues and their underlying causes and 2) recommend solutions to improve taxpayer service and IRS responsiveness. The advocacy councils are multi-functional and include executive participation and oversight. They allow regional offices to partner with field offices to improve district and service center processes. Project results and recommendations that require national coordination for implementation are forwarded to the National Taxpayer Advocate for implementation

consideration. In FY 1998, the TA will have the additional option to issue Taxpayer Advocate Directives (TADs) to direct that specific advocacy recommendations be implemented by functional business areas (see discussion of Advocacy Memoranda elsewhere in this report).

In FY 1997, the advocacy councils instituted a number of projects resulting from major issue code (MIC) analysis. In addition to identifying new issues, much of the analysis resulted in refinement of the MIC process. They also undertook other major projects which are in various stages of completion. Some of the projects have been finished and others will continue into FY 1998. The key projects and recommendations are:

Earned Income Tax Credit (EITC) Administration - Western Region (WR)

The Earned Income Credit Tax Administration project was established as a long-term undertaking. Its purpose is to assist taxpayers who are entitled to the credit, decrease taxpayer burden related to administration of the credit, and address EITC noncompliance. Several of the group's recommendations were incorporated in the Request for Information Services (RIS) changes for the 1998 filing season. Also, the project group made several legislative recommendations that are included in this report.

Power of Attorney/Centralized Authorization File (CAF) - WR

A group is reexamining the issue of having Power of Attorney (POA) authorizations entered and maintained on the CAF. While the timeliness of input of POA's to the CAF has been an ongoing problem, the recent IRS field reorganization has added new jurisdictional issues. One district is testing direct input of POA's by district offices.

Audit Reconsideration - WR and Midstates Region (MSR)

The MSR and WR Regional Advocacy Councils both conducted projects on different aspects of the audit reconsideration problem. One project (WR), to centralize all audit reconsiderations in order to improve overall efficiency, has been implemented at two service centers. The audit reconsideration package and forms have been revised and a training package was prepared. Public Contact employees in the Western Region were then trained on the central audit reconsideration process. The results of this project were shared with the other regions for possible implementation.

The second project involved a single district that experienced a large increase in both the total number of audit reconsideration cases and those going to the Problem Resolution Program. As part of this project, results from WR's project were reviewed and an alternative test was completed to have audit reconsiderations centralized in the district offices. Results are being reviewed for possible implementation.

Toll-Free Access and Demand - MSR

This project was started to address problems that taxpayers experience when trying to reach the IRS by telephone. The overall goal of the project is to increase the level of access. The objectives are to (1) complete analysis that will identify trends in calling patterns and alternative types of assistance, (2) determine advantages of calls for both the taxpayer and the Service, and (3) identify potential telephone service inadequacies. Focus groups with taxpayers were conducted, issues were analyzed against volume reports by period, and testing of recommendations is underway. While many recommendations have been submitted, the team will continue to study several issues related to toll-free access and demand. The recommendations are being considered for implementation by functional areas for FY 1998 and beyond.

Federal Tax Deposit Rules Simplification - Northeast Region (NER)

The system for Federal Tax Deposits (FTD) remains complex for business taxpayers. The FTD group established the need to streamline deposit rules, simplify forms and notices, improve informational/instructional materials offered to businesses, increase access to assistance, and reevaluate the fairness of certain penalties. A large number of specific recommendations were made in four areas: FTD rules simplification, forms and publications, procedural improvements, and organizational efficiencies. The FTD group will continue to monitor this issue and will further examine the Electronic Federal Tax Payments System.

Substitute for Return (IRC 6020(b)) - Southeast Region (SER)

As a result of proposed assessments by the Automated Substitute for Return (ASFR) Program, taxpayers generally will file tax returns or respond in some other way to the IRS. Often, the taxpayer does not receive a response to their subsequent inquiry until the statutory period expires and a tax assessment is made. Current procedures require collection activity to continue throughout the audit reconsideration process with notices continuing to be sent to taxpayers. Many of these cases considered by the various functions eventually become PRP cases. This results in the expenditure of considerable resources and poor service to taxpayers. Recommendations were made to provide acknowledgment/interim letters for receipt of a tax returns and to make procedural changes to correct the problem. Also, the group recommended the adoption of two separate existing Requests for Information Services (computer programming changes) that would clarify instructions to taxpayers.

Offer in Compromise (OIC) - SER

IRS often does not utilize information secured or received through the OIC process when it is determined that an OIC is not a viable solution for the taxpayer.

Recommendations were made to revise our internal procedures so that the information from rejected and non-processable offers is available for use by collection employees.

Installment Agreements (IA) - MSR and WR

Two regions initiated IA studies in 1997. One region is in the data gathering stage and will continue with the project in FY 1998. Midstates Region has submitted a final report to the National Office. The purpose of this study was to identify and understand the products and services customers need to help them make timely installment payments so that the number of systemic defaults and reinstatement costs decrease, and customer satisfaction with the process improves. The final report included recommendations that we will pursue at the national level during FY 1998 and beyond. Two initial recommendations included in this project are: that the taxpayer not be assessed the failure to pay penalty (FTP) while the account is kept in good standing (*included as a legislative recommendation, with modification, in this report*) and that the IRS needs to establish a reasonable and equitable policy on dealing with "lifetime IA" situations.

Taxpayer Advocate Administrative Recommendations

The TA initiated 16 Advocacy Memoranda during FY 1997, outlining 18 recommendations to improve performance of IRS systems. Fifteen recommendations had response dates in FY 1997. The remaining responses and subsequent recommendations are being monitored for the FY 1998 report. The status of FY 1997 recommendations is:

- 7 Adopted
- 5 Rejected (one is still being pursued by TA)
- 1 Adopted in the 1997 Tax Reform Act
- 5 Monitoring to ensure the business owner has taken appropriate action

A detailed summary account of FY 1997 advocacy recommendations follows.

Summary Account of FY 1997 Advocacy Recommendations				
#	Title	Recommended Action	Office Assigned	Response
1	Audit Reconsideration Reengineering Project	Centralize audit reconsideration processing in service centers.	Chief Compliance	Implemented in Western Region. Partial adoption in Midstates. Under consideration for national adoption.
2	Taxpayer's Right to Abatement of Math Error Adjustment	Include taxpayer appeal rights in TY 1997 math error notices.	Chief Taxpayer Service (TPS)	Implemented
3	PacificNorthwest Proposed Adjustment to Electronic Federal Tax payment System (EFTPS)	Adjust procedures to alter deposit time cutoff which is based on Eastern Standard Time to provide equity for taxpayers with Pacific time zones.	Chief TPS	Rejected. If this change were implemented it would contravene efforts to utilize standard business practices when the government deals with the private sector.
4	Claims Advocacy Project	Recommendations from a PRP study to improve claims processing practices.	Chief TPS	Response from responsible official that the issues cited in this study have been resolved. Since MI Code analysis from FY 1997 indicates this is still a problem PRP in Midstates Region will do a follow-up review of current inventory to see if this issue requires further action.
5	Distribution of IRS Change of Address Mailer	Pilot in Indiana District to test alternative printing and distribution for change of address for IRS record with the distribution of Welcome Kit recommended for national adoption..	Chief TPS	Responsible official will accomplish this objective with a broader initiative to adopt US Postal Service National Change of Address File. This option is entirely systemic and reduces taxpayer burden. Will be tested in 1998 filing system.

Summary Account of FY 1997 Advocacy Recommendations				
#	Title	Recommended Action	Office Assigned	Response
6	Appeal of Seizure Action	Recommend that the taxpayer not be bound by the current ten day timeframe to appeal a seizure.	Chief Compliance	Process to be reviewed in FY 1998 after cases that meet this criteria have been under the existing process for one year. If significant problems are experienced then the procedure will be revised. Taxpayer Advocate will follow up after one year to check results.
7	Issue an Information Notice for First Time Depositors receiving a Waiver of FTD Penalty.	Advise taxpayers that they have been granted a first time waiver of an FTD penalty so that they can be alerted to correct future deposit infractions.	Chief Compliance	Responsible Official rejects creation of this information notice because systemic limitations hinder notice issuance within the applicable period.
8	Include Check Box for Change of Address on Routine Operations Forms	Include an address change check box on routine operational forms.	Chief TPS/ Compliance Chief Info. Systems Appeals	Implemented on appropriate forms.
9	Open Last Known Address Study Recommendations	Requesting closing action on the eight remaining open Last Known Address Study recommendations	Chiefs/TPS Compliance	All remaining recommendation implemented as suggested or an alternative strategy to achieve the same objective adopted.
10	Reasonable Cause Abatement of the Penalty IRC 7519 (f) (4) (A). (Requirement for S Corporation to file a return, and if due, make payments).	Grant taxpayers reasonable cause abatement for deposits under this IRC Section.	Chief Compliance	Responsible Official did not endorse this proposal. However, this provision was included in the 1997 Taxpayer Relief Act.
11	Telefile "Stand-Alone" Package Without Tax Forms or Tables	Include complete package of forms and instructions to all targeted filers of Telefile.	Chief TPS	Responsible Official disagreed and stated that recent focus groups indicated that although this did create some burden to taxpayers the taxpayers did not find this (a tax package without forms or tables) to be significant.

Summary Account of FY 1997 Advocacy Recommendations				
#	Title	Recommended Action	Office Assigned	Response
12	Notification of Acceptance of an Offer-in-Compromise (OIC) on a joint return	Notify the co-obligator in situations where only one spouse files an OIC on a joint liability.	Chief Compliance	Response pending a ruling from Chief, Counsel
13	Inconsistent Treatment of Taxpayers Filing Amended Returns	Clarify procedures in Adjustment Internal Revenue Manual 3(15)60	Chief TPS	Implemented
14	Repeat Examinations	Notify taxpayers at close of an examination when open issue pending litigation may result in additional interest.	Chief Compliance	Responsible Official will revise Form 939, Reopening Letter, to clarify notification.
15	Issues Impacting Divorced and Separated Taxpayers	Three recommendations 1) adopt policy of equal coordinated collection activity against both spouses, 2) no action be taken against one spouse until all steps have been taken to locate other spouse, and 3) Collection function maintain a count of innocent spouse cases.	Chief Compliance	Recommendation 1 agreed with, the second not accepted because it would cause lengthy delays in processing and potentially increase interest costs, and the third to be tested in one district to determine cost and suitability for nation wide implementation.
16	Waivers for the Extension of the Statute of Limitations for Collection.	Reassess Collection policy for extending statute of limitations for cases that have been in dormant status, and discontinue threat of enforcement as a tool to get a taxpayer to sign a waiver unless the account is active.	Chief Compliance	Responsible Official asked for examples and additional information on this practice. Extension granted until information can be furnished and reviewed by Collection.

LEGISLATIVE PROPOSALS

In addition to the administrative actions initiated by the Office of the Taxpayer Advocate, a number of legislative proposals are recommended. Legislative changes are of particular benefit where current tax law may prevent the resolution of taxpayer problems or where it is felt service might be improved or burden to the taxpayer reduced. During the year the TA encouraged suggestions for improvement from a variety of internal and external sources and received a number of legislative recommendations for consideration. They have been categorized as: **Legislative Recommendations** for which both a brief synopsis and a more *detailed summary* of each proposal is included, and **Field Suggestions** which will require further development and analysis.

Synopsis of Recommended Legislative Proposals

1. Waiver of the 10% Addition to Tax for Early Withdrawal from an IRA or Other Qualified Plan in Cases of Hardship [IRC section 72t] - Amend IRC section 72t so that the 10% additional tax on early distributions from an IRA or other qualified plan may be waived for taxpayers in cases where the plan administrator failed to furnish the required statement.

2. Deduction for Repayment of Income Previously Reported [IRC section 1341]-

Instead of a deduction on Schedule A (of Form 1040), allow taxpayers to report either as a deduction from gross income or for the taxpayer to amend the return for repayments of amounts previously reported as taxable income.

3. Require Rounding of Dollars to Cents on Returns and Other Documents [RC section 6102] - Currently, taxpayers are allowed to choose to round to the nearest whole dollar or to include the exact cents on paper returns. This is a source burden and confusion for taxpayers. The added complexity of using cents in the many required mathematical calculations increases taxpayer and IRS errors. These errors result in many IRS notices to taxpayers. This proposal would conform the requirements for paper returns with the practice used with electronic filing, which requires rounding. This practice has also been adopted by most states.

4. Allow for Refunds to Bypass Offsets to Other IRS Liabilities in Hardship Situations - Current law allows for the offsetting of federal tax overpayments to be applied to outstanding and overdue debts to IRS. The TA proposes that an exception be made to this for hardship Taxpayer Assistance Order (TAO) cases, including those after the IRS assessment date of the return generating the overpayment, so that refunds can be made to the taxpayer.

5. Allow Taxpayers to Change Their Filing Status from Joint to Separate in Situations in Which One Spouse Is Deemed to Be Unfairly Saddled with a

Joint Liability. - Individuals who divorce after having filed a joint return are sometimes held liable for the entire tax due (and any interest and penalties) from that joint return even if the amounts were attributable to the other spouse. Allowing divorced or separated spouses, who are deemed to have been unfairly saddled by a joint liability, to amend their prior joint returns to elect separate status would relieve the former spouse of this unfair burden.

6. Allow for Refunds to Bypass Offsets to Debts to Other Government Agencies in Hardship Situations [IRC sections 6402(c) and (d)] - IRC sections 6402(c) and (d) mandate the offsetting of tax overpayments to outstanding and overdue debts to other government agencies. The TA proposes that an exception be made to this for hardship TAO cases so that refunds can be made to the taxpayer.

7. Exempt the Earned Income Credit (EIC) from Offsetting to Federal Tax and Debtor Master File (DMF) Liabilities - Exempt the EIC from the DMF/Refund Offset Program [IRC sections 6402)(a) (b) and (c)] to ensure that at least this portion of a taxpayer's refund go to the taxpayer rather than offsetting to other debts. The original purpose of the EIC was to encourage low-income working taxpayers to stay employed. It was not intended to be used as a back up collection tool. This is even more relevant with the Welfare Reform provision that is requiring able taxpayers to work after so many years on welfare.

8. Allow Taxpayers to Get a Refund of Prepaid Credits on a Late Filed Return [IRC section 6511] - IRC section 6511 states that a claim for credit or refund of an overpayment must be filed by the taxpayer within three years from the date he or she filed the return or two years from the date he or she paid the tax. In the case of the filing of an original return, the taxpayer will not receive a refund of excess prepaid credit (withholding and estimated tax) if the taxpayer files his or her return more than three years from the due date. Taxpayers who file late returns often are put in the position of owing tax for recent years while losing prepaid credits from earlier years. This does little to encourage delinquent taxpayers to reenter the system. The TA has two alternative recommendations to amend IRC section 6511:

8a. Allow the refund of overpayments on claims for credit or refund after the three-year period. Interest on that refund should be allowed if the return is not processed within 45 days.

8b. Allow offsets from an otherwise closed year only to certain balance due accounts for the same taxpayer. Offsets would be permitted only for returns due during the period when a credit or refund from the closed year would have been allowable under existing law.

9. Expand Statute Expiration When Delay Was Caused By Another Government Agency [IRC sections 6511 and 6514(a)] - Allow for an extension of the statute for refund claims in cases where the taxpayer had relied on another

government agency to handle the matter. This statute could expire one year after the determination is made by the other agency on the taxpayer's claim.

10. Allow Reversals of Estimated Payments That Were Elected to Apply for a Succeeding tax year [IRC section 6513(d)] - If the taxpayer elects to have all or part of an overpayment shown on a return applied to the estimated tax for the succeeding taxable year, such election is binding. If an amended return is filed showing an underpayment, the taxpayer may not pay the liability with the previously elected credit.

11. Credit Date for Overpaid Late Filed Returns [IRC sections 6601 and 6611]

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Allow for an overpayment on a late filed return to be applied to other liabilities as of the same date that the credit would be applied to tax on the overpaid return.

12. Postmark Date Considered Filing Date for All Returns [Amend IRC section 7502] - Allow the postmark to be considered the filing date for all documents filed with the IRS. The postmark date would not govern payments mailed after the due date of a return.

13. Allow IRS to Recalculate or Disallow Earned Income Credit based on Date of Birth Without Issuing a Notice of Deficiency [IRC section 6213(g)(2)] - Authorize the IRS to recalculate or reject a taxpayer's claim for the Earned Income Credit (EIC) when an ineligible date of birth is provided by the taxpayer without issuing a notice of deficiency. Giving the Service "math error authority" in this area, as it has with the correctness of Taxpayer Identification Numbers for EIC, would allow quicker resolution to problems in this area and provide taxpayers with a simpler way of resolving problems.

14. Simplify the Definition of Qualifying Child for the EITC [IRC section 32(c)(3)] - Conform the definition of qualifying child more closely to the rules for dependency exemptions [IRC section 151(c) (3)]. Also, amend IRC section 32(c)(3) to provide that a child qualifies if that child meets the definition of a child claimed as a dependent and the child had its principle place of abode with the taxpayer for over one half of the year. This proposal does not amend the identification and residency requirements of IRC Sections 32(c)(3) (D) and (E).

15. Extend Disclosure Authority for Suicide Threats to Local Enforcement Agencies [IRC section 6103] - Amend IRC section 6103(i)(3)(B) to allow IRS to contact and provide certain information local law enforcement authorities in cases of suicide threats. Currently, the Service may only contact federal and state law enforcement agencies.

16. Limit Statute Extension on Dormant Cases [IRC section 6502] - This proposal would prevent extension of the collection statute [IRC section 6502] in

situations in which the Service has taken little or no collection action for a specified period of time. The Service currently may demand payment just prior to the expiration of the statute, forcing the taxpayer to agree to extend the statute or face a seizure of assets (or other action) on a case in which the IRS has left dormant for many years.

17. Eliminate Interest Differential [IRC section 6621] - Amend section 6621 to eliminate the differential between interest rates applicable to overpayments [Section 6621(a) (1)] and underpayments [section 6621(a)(2)] of tax]. By eliminating the necessity for and complexity of interest netting, this proposal furthers the goal of fundamental fairness for taxpayers and generally simplifies tax administration.

18. Reduce Failure-to-Pay Penalty While an Installment Agreement is in Effect [IRC section 6651] - Reduce the failure-to-pay penalty on taxpayers who have a valid installment agreement in effect. This would reduce the cost to a taxpayer who is making a good-faith effort to pay their liability and provide a great incentive for taxpayers to enter into an installment agreements.

Comprehensive Explanation of Legislative Recommendations

1. Waiver of the 10% Addition to Tax for Early Withdrawal from an IRA or Other Qualified Plan in Cases of Hardship [IRC section 72t]

Current Law: IRC section 72(t) imposes a 10% addition to tax for early withdrawals from an IRA or other qualified plan (as defined in section 4974(c). This is a tax (not a penalty) - and as such, there is no provision for a waiver. IRC section 402(f)(1) requires that the plan administrator, when making an eligible rollover distribution, provide a written explanation to the recipient. Section 6652(h) imposes a penalty of \$10 for each failure to furnish the required statement, up to a maximum of \$5000.

Reason for Change: The plan administrator's failure to furnish the required statement to the recipient of an eligible rollover distribution can result in the taxpayer being liable for thousands of dollars in additional tax, yet the penalty to the administrator is only \$10 per failure (maximum of \$5000). In a particular case, that came to the attention of the TA's office, when a company went out of business, about 500 employees received distributions eligible for rollover. None of them received the required statement from the administrator. Many of these taxpayers were unemployed and could not afford the 10% additional tax imposed on the distribution, yet the Service does not have the authority to waive the tax.

Proposed Change: Amend IRC section 72(t) to allow the Secretary authority to waive the 10% additional tax when it can be documented that the plan administrator failed to furnish the required statement to the taxpayer.

2. Deduction for Repayment of Income Previously Reported [IRC section 1341]

Current Law: IRC section 1341 provides that individual income tax filers who repay amounts previously reported as taxable income must deduct this repayment as an itemized deduction on Form 1040, Schedule A in most cases.

Reason for Change: If the taxpayer does not qualify to itemize deductions on Schedule A, the deduction is lost. The problems created by this law are inequity and increased taxpayer burden. Most taxpayers use the cash basis of accounting. This method requires that an amount is reported as income when it is received and the amount paid back is deducted in the year it was repaid. Taxpayers have already paid tax on income that was later determined not to be income. Current law does not provide an avenue to claim credit for these taxes paid in error. Taxpayers are penalized for reporting too much income on their original returns.

Proposed Change: 1) Change the IRC to allow taxpayers to amend their tax return which included originally included the income or 2) Change the IRC to allow

taxpayers to take the repayment as an adjustment to income on the face of Form 1040, rather than as an itemized deduction, in the year of repayment.

3. Require Rounding of Cents to Dollars on Tax Returns and Other Documents [IRC section 6102]

Current Law: IRC section 6102(a) authorizes the Secretary to provide with respect to any amount required to be shown on a tax return; that, either the fractional part of a dollar shall be disregarded, or the fractional part of a dollar shall be disregarded unless it amounts to one half dollar or more, in which case the amount shall be increased by \$1. Section 6102(b) provides that any person making a return, statement, or other document shall be allowed, under regulations prescribed by the Secretary, to make such return, statement or other document without regard to subsection (a).

Reason for Change: The use of cents confuses both taxpayers and IRS employees processing the returns and frequently results in errors. These errors should be reduced with a resulting reduction in the cost of correspondence and taxpayer burden associated with correcting the errors. Many tax professionals have been rounding for years and major payroll service firms see this as a step forward in simplifying income tax withholding. This proposal was submitted previously to the Treasury by Commissioner Richardson in December 1993 in an effort to “help IRS shift from a paper based processing environment to one based primarily on electronically filed returns and electronic funds transfers.” Many states have already adopted this practice.

Proposed Change: Repeal IRC 6102(b) which allows taxpayers to report line entries on tax returns and attached schedules in both dollars and cents. Amounts on electronic returns are reported in whole dollars only and paper returns should be as well.

4. Allow for Refunds to Bypass Offsets to Other IRS Liabilities in Hardship Situations

Current Law: IRC section 6402(a) states that the Secretary may credit overpayments against any internal revenue tax liability. It is Chief Counsel’s opinion that the Service may bypass a refund offset under section 6402(a) only if the action is initiated prior to the assessment date of the return creating the overpayment.

Reason for Change : Section 6402 as administered by the IRS, provides a method for offsetting tax overpayments to outstanding and overdue debts to the IRS. The principle of offsetting overpayments to debts is logical; however, when applied mechanically regardless of circumstances , the IRS can become indifferent to the needs of its customers. The provisions of this section need a modification which would enable the IRS to bypass offsets in certain rare instances when hardship for the taxpayer warrants such action.

Proposed Change: Amend IRC section 6402 to allow for the bypass of a refund offset under section 6402(a) when it is determined that the taxpayer is experiencing a significant hardship.

5. Allow Taxpayers to Change Their Filing Status from Joint to Separate in Situations in Which One Spouse Is Deemed to Be Unfairly Saddled with a Joint Liability.

Current Law: Taxpayers may not change their filing status to separate once a joint return has been filed. Taxpayers who file jointly are held to be “jointly and severally” liable [IRC 6103(d)(3)] for any tax, interest, and penalties that may be due. However, IRC 6013(b) specifically provides for taxpayers to file jointly after having filed separate returns.

Reason for Change: Taxpayers who have filed a joint return are sometimes held liable for the entire tax due (and any interest and penalties) from that joint return even if that tax was attributable to the other spouse. This is generally an issue when spouses divorce in a year after a joint return has been filed. A number of instances have occurred where a divorced spouse has been required to pay a large liability that was entirely due to the activity of a former spouse and collection activity could not (or was not) taken against that former spouse. Allowing divorced or separated spouses, who are deemed to have been unfairly saddled by a joint liability, to amend their prior joint returns to elect separate status would relieve the former spouse of this unfair burden.

Proposed Change: Amend IRC section 6013(b) to allow taxpayers to change from joint to separate status. This change of status would need to be done within the three-year statute and with the signatures of both spouses. If the former spouse could not be located or is deceased, the Taxpayer Advocate would be authorized (under IRC 7811) to allow a change to separate status without a signature of that spouse.

6. Allow for Refunds to Bypass Offsets to Debts to Other Government Agencies in Hardship Situations [IRC sections 6402(c) and (d)]

Current Law: IRC section 6402(a) states that the Secretary may credit overpayments against any Federal tax liability. However, section 6402(c), Offset of Past Due Support Against Overpayments, and section 6402(d), Collection of Debts Owed to Federal Agencies, state that the Secretary shall pay the amount owed, in the order of (c) then (d), after offsetting against any Federal tax liability. It is Chief Counsel’s opinion that the Service may bypass a refund offset to Federal tax liabilities under section 6402(a) under limited circumstances but that it cannot bypass the refund under 6402(c) and (d).

Reason for Change: IRC section 6402 as administered by the IRS, provides a method of offsetting tax overpayments to outstanding and overdue debts to other government agencies. The principle of offsetting debts is logical, however, when applied mechanically, regardless of circumstances, the IRS can become indifferent to

the needs of its customers. The provisions of IRC sections 6402(c) and (d) need a modification which would enable the IRS to bypass offsets to government agencies in certain rare instances when hardship for the taxpayer warrants such action.

Proposed Change: Amend IRC section 6402 to allow for the bypass of a refund offset under sections 6402(c) and (d) when it is determined that the taxpayer is experiencing a significant hardship.

7. Exempt the Earned Income Credit (EIC) from Offsetting to Federal Tax and Debtor Master File (DMF) Liabilities

Current Law: IRC section 32(a) sets forth the allowance of a credit for eligible individuals. In order to be eligible, taxpayers must be working/wage earning, be low income, and have a qualifying child living with them. Congress originally enacted this to encourage low income families to stay employed rather than going on the welfare rolls. The law has been on the books since 1974. It has been amended and extended many times but the intent has remained the same, an economic incentive for the working poor.

Section 3507(a) sets forth the requirement that employers with employees eligible for the earned income credit shall, upon request by the employee include the EIC amount at the time of paying the employee's wages. In other words, employees may, upon request, receive the EIC throughout the year rather than at the time of filing their tax return. Experience has shown that very few of those employees eligible receive the Advanced Earned Income Credit (AEIC) even though it is available to them.

Sections 6402(a), (b) and (d) set forth the provision of law commonly known as the refund offset program. These sections give the authority/requirement that overpayment on a taxpayer's account will FIRST be credited to any past due taxes of that taxpayer, next to estimated income taxes, and then to any past due child support which has been certified to the Secretary by that federal agency. If any overpayment exists after the application of these sections, a refund will be issued to the taxpayer. This section of the IRC has been in effect for a number of years. It too has been amended and extended several times. The Congressional intent with the expansion and extension of this provision was initially, the collection of past due child support.

Reason for Change: The Congress has set forth a provision allowing an EIC as an economic incentive for the working poor to remain employed. They have also directed the interception of any overpayments (refunds) including the earned income credit, when the taxpayer has an open Federal tax debt or a liability such as delinquent child support on the Debtor Master File. Herein lies the clash of two competing social policies; the economic incentive for the working poor versus the collection of past due child support and other Federal debts.

The refund offset program is a back-up collection tool, which, by its very nature results in unequal treatment of taxpayers; i.e. a taxpayer may avoid the refund offset provision by simply adjusting his/her withholding so that no overpayments exists when the tax return is filed. Also, Congress directed the interception of ANY overpayment available including the EIC. In addition, a qualified taxpayer who elects to receive the AEIC will receive that credit throughout the year, thus avoiding the refund offset provision of the IRC.

This creates inequitable treatment of taxpayers in similar positions since the taxpayer that does not take the AEIC is penalized by having their refund offset to other debts. It also undermines the intent of the EIC as an incentive for the working poor to remain employed since they receive no benefit from the credit.

Proposed Change: Amend IRC section 6402(a) to exempt the Earned Income Credit from offset.

8. Allow Taxpayers to Get a Refund of Prepaid Credits on a Late Filed Return [IRC section 6511]

Current Law: IRC section 6511, Period of Limitation on Filing a Claim, requires that a claim for credit or refund of an overpayment must be filed by the taxpayer within 3 years from the time the return was filed or 2 years from the time the tax was paid whichever of such periods expires later. If no return was filed by the taxpayer, the claim for refund must be made within 2 years from the time the tax was paid. The application of this section prevents taxpayers from receiving refunds or offsets of overpayments of prepaid credits from late filed returns unless these returns are filed within the two-year statute period. When a late filed return is received past the statute date, the taxpayer is allowed to take the prepaid credits against the tax liability and the remaining credits are removed from the account.

Reason for Change: Changing this section will benefit taxpayers by allowing prior refunds/overpayments to offset to current balance due accounts. The argument could be made that the reason for having the statute is to encourage voluntary compliance and timely filing of returns. Taxpayers would not have adequate incentive to file timely if there were no refund restrictions. Yet many taxpayers are not aware of the statute provisions. Their reasons for not filing timely vary from negligence or errors on their part or on the part of a third party, to possible emotional stress from some traumatic event in their life.

During our well publicized non-filer program which encouraged taxpayers to file past due returns, a number of taxpayers filed multiple past due returns, some with refunds that were not allowed due to expiration of the statute of limitations on filing a claim for refund. These taxpayers were not aware of that provision and had expected their refunds would be applied to other liabilities. The fact that they were not resulted in significant taxpayer frustration and negative perceptions regarding a well intended

process. This provision would serve as an incentive rather than a disincentive for taxpayers with past due returns, some of which may contain overpayments of tax credits.

Alternative Proposals: 8a. Amend IRC section 6511 to read “Claims for credit or refund of an overpayment of any tax will be allowed whenever a return is filed by the taxpayer.” No interest should be allowed on the refunds and any overpayment should be credited as of the date the delinquent return is filed.

8b. Allow offsets from an otherwise closed year only to certain balance due accounts for the same taxpayer. Offsets would be permitted only to returns due during the period when a credit or refund from the closed year would have been allowable under existing law.

9. Expand Statute Expiration When Delay Was Caused by Another Government Agency [IRC sections 6511 and 6514(a)]

Current Law: IRC section 6511(a) states that a claim for credit or refund of an overpayment shall be filed by the taxpayer within three years from the time the return was filed or within two years from the time the tax was paid, whichever expires later. Section 6514 (a) further states that a refund of any portion of a tax is erroneous and a credit for such portion is void unless the claim for that refund is timely.

Reason for Change: A taxpayer may mistakenly file a timely claim for refund with a government agency that administers the fund financed by the taxes in question. The proceeding at the other agency may not be resolved until after the IRC statute expires. When the taxpayer is successful and asks for a refund, the agency advises that a claim must be filed with the Internal Revenue Service. Although one can argue that the taxpayer should have filed a protective claim with the IRS, few of IRS's own employees are aware of these procedures. The taxpayer is acting in good faith that the government will handle all parts of the issue.

A specific case which was brought to the attention of the TA involved a taxpayer who was self-employed outside of the United States for tax years 1976 through 1982. During this period, he was assessed self-employment tax on his earnings. In 1983, the taxpayer initiated an appeal with the Social Security Administration to recover the self-employment tax since his earnings were all outside the United States and were not subject to self-employment tax because of a treaty with Sweden. The issue was finally resolved in the taxpayer's favor on November 9, 1988. At that time, he was referred to the Internal Revenue Service to apply for the refund. However, the statute of limitations had expired for claiming a refund. The taxpayer could not be expected to know that Social Security's administration of its program does not include refunding monies erroneously paid into that program. He is now faced with having no social security credits for 1976 through 1982 and no way to recover the money he erroneously paid.

Proposed Change: Expand IRC sections 6511(a) and 6514(a) to include an extension of the statute for refund claims in cases where the taxpayer dealt with another government agency to secure the refund. This statute would expire one year after the determination is made by the other agency on the taxpayer's claim. The legislation should also give the Secretary the authority to prescribe regulations as contingency issues could arise in areas where there is no current problem.

10. Allow reversals of estimated payments that were elected to apply for a succeeding tax year [IRC section 6513(d)]

Current Law: IRC section 6513(d) and Revenue Ruling 77-339 provide that once an overpayment is applied as a credit-elect to the estimated tax for the succeeding year it cannot be offset against any additional tax subsequently determined for the year of the overpayment and allow for reversal of the credit elect only under specific criteria (e.g. IRS error or hardship) and it must be made prior to March 1 of the succeeding year even if a return for that year has not posted.

Reason for Change: Taxpayers filing amended returns for the credit elect year, prior to filing the succeeding year's return, which result in a balance due are not permitted to apply their credit elect for that year to the amount owed. The taxpayer must pay a penalty and interest on the balance due even though the money held by IRS is available and could be applied if the law allowed.

Proposed Change: Amend section 6513(d) to allow the reversal of a credit elect for estimated tax payments prior to the due date with extensions for the succeeding year provided no return has posted. This credit should be available to pay any additional assessment on the overpayment year as of the due date of the return, the same date used to credit it to the next year as a credit elect. The request for this reversal shall be made in writing with the understanding that this credit will no longer be available to be used as the first estimated tax payment for the succeeding year.

11. Credit Date for Overpaid Late Filed Returns [IRC sections 6601 and 6611]

Current Law: IRC section 6601(f) states that if any portion of a tax is satisfied by an overpayment, then no interest shall be imposed under this section on the portion of the tax satisfied during the period that interest would have been allowed on the overpayment of tax had it not been applied.

Section 6611(b)(3) provides that for a return of tax filed after the last date prescribed for filing such return (including extensions) no interest shall be allowed or paid for any day before the date on which the return is filed. Therefore, an overpayment of credits on a delinquent return will be credited to another tax period as of the date the delinquent return is received.

Reason for Change: Most overpaid delinquent returns are prepaid by withholding, estimated tax, deposits or other credits which are paid or deemed paid prior to the filing of the related return. The Treasury generally has possession of the funds prior to the return filing date. These amounts are applied to the liability for which they were originally designated as timely payments, unless actually received later. Penalties and interest imposed for balances owed for the later periods are perceived as inconsistent and unfair since there is a widespread perception that there is no penalty for the late filing of a refund return.

Proposed Change: Amend IRC section 6601 to allow an overpayment credit (or portion thereof) to be applied to other liabilities as of the same date that the credit would have been applied to tax on the overpaid return.

12. Postmark Date Considered Filing Date for All Returns (Amend IRC section 7502)

Current Law: IRC section 7502(a) allows for a postmark to be considered the date of delivery for an original return or a claim as long as that postmark falls within the due date (including extensions) for filing of the return or claim. However, if a taxpayer files a delinquent refund return for 1994 that is received on April 20, 1998 with a postmark date of April 15, 1998, it will not be considered a timely filed return for the purposes of issuing a refund of prepaid credits because it was revised after the return due date.

Reason for Change: Taxpayers misunderstand the postmark rules of IRC section 7502 as they apply to amended or delinquent returns. As a result, refunds and credits have been disallowed for taxpayers filing original returns near the end of the statute of limitations period established by section 6511. The postmark date is material only when a return is filed on or before its due date. If it is mailed after its due date (including extensions), it is considered filed on the date it is received by IRS.

Proposed Change: Amend IRC section 7502 to allow the postmark date to be considered the filing date for all documents, with the exception of payments filed with the Internal Revenue Service. Section 7502(a)(3) should be added to read:

(3) CLAIMS -- If any claim for refund or credit (including claims made on properly executed original or amended returns) is postmarked on or before the last date prescribed for allowance of a refund or credit under section 6511, the postmark date shall be deemed the date of delivery.

13. Allow IRS to Recalculate or Disallow the Earned Income Credit (EIC) Based on Date of Birth Without Issuing a Notice of Deficiency [IRC section 6213(g)(2)]

Current Law: IRC section 32, dealing with the Earned Income Credit, currently contains several restrictions on eligibility based on the age of the taxpayer and/or the

age of the taxpayer's children. Ineligible dates of birth, however, cannot be treated as math errors under current math error authority [section 6213(g)(2)]. While the Service does have the authority to check the accuracy of social security numbers and TINs under section 6213(g)(2)(F), this authority does not extend to checking the eligibility of dates of birth. The Service currently checks the accuracy of social security numbers against data obtained from the Social Security Administration. This data also contains information regarding dates of birth. The Code, however, does not permit the Service to use math error authority when the taxpayer attempts to claim the EIC for himself/herself or for a child when the taxpayer or the child is disqualified by reason of age.

Reason for Change: Current law provides that if the Service determines that the taxpayer or the taxpayer's children are ineligible by reason of age, the Service cannot recalculate or disallow the EIC without issuing a notice of deficiency. This process is complex and often drags-out the process of verifying the claimed credit. The Service routinely checks the accuracy of social security numbers provided by taxpayers and treats incorrect numbers as math errors. The Service could, if authorized by law, routinely check the accuracy of dates of birth and treat ineligible dates of birth as math errors. Providing the Service with the authority to treat ineligible dates of birth as math errors would streamline the process by which the Service administers the EIC program. This would allow quicker resolution of taxpayer problems in this area and provide taxpayers with a simpler way of resolving problems, as well as reducing some of the current abuses of the system. Notices must clearly state that the taxpayer can appeal math error processing results and list exactly what the taxpayer should do to initiate an appeal.

Proposed Change: Amend IRC section 6213(g)(2) to provide additional authority to the Service to treat ineligible dates of birth provided for purposes of obtaining the EIC as math errors.

14. Simplify the Definition of Qualifying Child for the EIC [IRC section 32(c)(3)]

Current Law: Although similar, IRC sections 32 and 151 have somewhat different tests for eligible children for purposes of obtaining the EITC and for purposes of obtaining personal exemptions for dependents, respectively. In general, section 32 has a general test, a relationship test, an abode test, and an age requirement. Section 151 (and its companion IRC section 152) have a general test, a relationship test, an age requirement, a support test, and a test for children of divorced parents. The eligibility tests for children as dependency exemptions under section 151 have been in place for many years and most taxpayers are familiar with them. While the section 32 tests are similar to the section 151 tests, under current law, there are differences which can confuse taxpayers and unnecessarily complicate navigating the tax code.

Reason for Change: Having two different definitions for eligible children under IRC sections 32 and 151 makes the Code unnecessarily complex. Taxpayers can easily be confused by the different tests used in section 32 for “qualifying child” and the tests used in section 151 for “dependent child.” The Code should adopt a uniform definition of eligible children. Recently adopted provisions of the tax code have attempted to tie their definitions of terms to already existing definitions. For example, section 101 of the Taxpayer Relief Act of 1997, the Child Tax Credit, ties its definition of “qualifying child” in part to section 151. In order to simplify claiming the EIC and reducing the burden on millions of taxpayers, the proposal recommends that the law be changed so that a more uniform definition is used.

Explanation of Proposal: The proposal would reduce the distinctions between “qualifying child” in IRC section 32, relating to the EIC, and “dependent child” as used in section 151(c)(3), relating to personal exemptions for dependents. The proposal amends section 32 to provide that a child is qualified if the child meets the definition of a child claimed as a dependency exemption under section 151(c)(3) and the child has its principle place of abode with the taxpayer for over one half the year. (Note: the proposal does not amend section 32’s identification and U.S. residency requirements.)

15. Extend Disclosure Authority for Suicide Threats to Local Enforcement Agencies [IRC section 6103]

Current Law: IRC section 6103(i)(3)(B), Emergency Circumstances, allows the Service to contact Federal and State law enforcement agencies in situations involving danger of death or physical injury, but it may not provide information to local law enforcement authorities, such as county, city, or town police.

Reason for Change: When a taxpayer threatens suicide as part of a tax-related issue, the IRS employee who receives the threat is prevented from contacting local law enforcement authorities. These authorities are usually the closest to the situation and are in closer contact with suicide hot lines and other social agencies that may be available to assist the individual. Often, the individual’s address which is available to IRS employees through various records, is the information that would most aid a local law enforcement agency. This action could save the life of an individual who may be suffering serious stress from a tax-related situation. This is an extremely sensitive area and a great deal of discretion would need to be shown. However, the potential to save a human life clearly overshadows other concerns in this area.

Proposed Change: Amend IRC section 6103(i)(3)(B) to allow IRS to contact and provide information to specified local authorities when a creditable suicide threat is received.

16. Limit Statute Extension on Dormant Cases [IRC section 6502]

Current Law: Where the assessment of any tax has been made within the period of limitation the tax may be collected within ten years after the assessment of the tax.

Reason for Change: In some Collection cases, an account may be placed in an uncollectible status or may not otherwise be actively worked due to higher priority work. In those cases little or no collection action has been taken other than the offset of refunds or through moderate periodic payments made by the taxpayer. The IRS, however, may initiate action to extend the statute for collection of the tax on those accounts for an additional period of time, usually one or more years. This may occur on several occasions for the same taxpayer. Taxpayers or their representatives have indicated on a number of cases that have come to the attention of the Office of the Taxpayer Advocate, that the IRS has used pressure through threats of enforcement action to obtain agreement from the taxpayer to an extension of the statute of limitations. Once the statute has been extended on these cases, the account is usually returned to the same in active or dormant status.

Proposed Change: Amend IRC section 6502 to not allow or limit the extension of the statute of limitations for collection beyond ten years on cases which are in a dormant status.

17. Eliminate Interest Differential [IRC section 6621]

Current Law: The IRS charges a higher rates of interest for underpayments than for overpayments.

Reason for Change: If a noncorporate taxpayer owes money for one year but has a deficiency for another year, current practice is to compute interest on the deficiency and the refund separately. The result of this is that a taxpayer may have overpayments and underpayments that are equal, but still be required to pay interest to the Service.

Proposed Change: Amend section 6621 to eliminate the differential between interest rates applicable to overpayments [section 6621(a)(1)] and overpayments [section 6621(a)(2)] of tax. By eliminating the necessity for and complexity of interest netting, this proposal furthers the goal of fundamental fairness for taxpayers and generally simplifies tax administration.

18. Reduce the Failure-to-Pay Penalty While an Installment Agreement is in Effect [IRC section 6651]]

Current Law: IRC section 6651(a)(2) provides for a penalty for failure to pay. This penalty is imposed on the net amount due [IRC section 6651(b)], with no provision made for a taxpayer who has entered into an installment agreement.

Reason for Change: One of the primary purposes of IRS penalties is to encourage taxpayers to pay their proper tax and otherwise comply with the tax laws. The imposition of the same amount of penalty that would be imposed on a delinquent taxpayer making no attempt to satisfy their liability as on a taxpayer who has agreed to pay a specific tax and has entered into an installment agreement to pay that tax does not further this purpose. On the other hand, the imposition of no penalty would not be fair to the fully compliant taxpayer.

Proposed Change: Amend IRC section 6651 to reduce by 50% the Failure-to-Pay penalty while an installment agreement is in effect.

FIELD SUGGESTIONS REQUIRING ADDITIONAL DEVELOPMENT OR ANALYSIS

The following represents a partial list of suggestions received from IRS field offices and/or local advocates. Most will require either further clarification or development by the submitting office or analysis by the Office of the TA as to their potential and feasibility. This list is provided only as an example of the various efforts ongoing in our field offices. Additional information can be made available on request.

1. Amend IRC section 1(g) regarding Alaskan Permanent Fund Dividends Exclude Alaska Native Corporation Distributions and Alaska Permanent Fund Dividend from the definition of “Investment Income” for the purposes of IRC section 1(g).
2. Enact Injured Spouse Provisions
 - Split income on Form 8379 IRC section 6402(k)
 - Protection of nondebtor spouses filing joint returns
 - Processing doesn’t always see the form.
3. Simplify rules for calculating depreciation
4. Simplify FUTA calculations and reporting requirements
5. Allow wagering losses netted against winnings or deducted as an adjustment to income instead of as an itemized deduction which is subject to the 2% limit.
6. Index Alternative Minimum Tax (AMT) for inflation or eliminate AMT. With normal inflation, approximately 600,000 additional taxpayers will be added to the rolls of AMT by 2006. AMT adds significantly to taxpayer burden.
7. Simplify Third Party Sick Pay Reporting. Eliminate the split reporting of third-party sick pay by repealing section 3(d)(1) of P.L. 97-123. This will relieve employers of current requirements to report and pay over the employer’s share of FICA taxes on sick pay benefits paid by third party insurers.
8. IRS should follow the tax provisions of a divorce decree.
9. Eliminate billings by IRS and refunds to taxpayers for amounts under five dollars in order to reduce burden and reduce processing costs.
10. IRC section 21: Increase Dollar Limit for Child-Care Credit. The employment related expenses should be increased or indexed for inflation from \$2,400 for one child and \$4,800 for two or more children. Additionally, the limit should be a per child limit (instead of maximizing at two children).

OTHER TAXPAYER ADVOCATE ACTIVITIES

QUALITY INITIATIVES

Based on the recommendations of a FY 1996 quality review task force, the Office of the Taxpayer Advocate implemented an improved quality review system for PRP casework. This system is designed to refocus quality perspective to the customer. One of the TA's primary goals for FY 1997 was to improve the quality of PRP casework. As a result of the emphasis in this area the national quality customer service rate improved from 72.9% in FY 1996 to 83.7% in FY 1997. The TA's staff also developed a new process analysis tool, the Quality Improvement Priority Score (QUIPS) for use by field offices to target the "vital few" quality standards on which to focus in order to maximize improvement in customer service rate.

During FY 1997, the TA commissioned a task force to develop appropriate measures for the TAO Program. His staff is currently working to develop a TAO centralized quality review program similar to the one for PRP cases. It is anticipated that the process of establishing a measure baseline will be completed during FY 1998 with full implementation in FY 1999.

SELECTION AND EVALUATION OF TAXPAYER ADVOCATES

In January 1996, the Commissioner issued a directive to all IRS Heads of Office that the Taxpayer Advocate or his designee, the Regional Taxpayer Advocate, would participate in the selection and evaluation of all district and service center Taxpayer Advocates. TBOR2 subsequently codified that requirement. During FY 1997, six new selections were made for district taxpayer advocates. The TA provided input and gave concurrence to each Regional Commissioner on the performance evaluation of each Regional Taxpayer Advocate. The Regional and Service Center Taxpayer Advocate participated in the performance evaluation and selection of the district and service center Taxpayer Advocates.

Upgrades for Field Advocates

During FY 1997, the TA took steps to address a concern that had been expressed both internally and externally regarding the grade level of field advocates. Because field TAs were generally one or two grade levels below the officials they were dealing with, there was a concern this disparity would make it difficult for them to adequately advocate for taxpayers. In addition, new responsibilities and duties have been assumed by field TAs as a result of TBOR 2 legislation. Following discussions on the most suitable grade level for the field TAs and classification efforts by the Headquarters Personnel Staff, the TA authorized upgrades for field TAs to Grade 14. A total of twenty one district and three service center advocates have already been upgraded with more expected during FY 1998.

APPENDICES

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EXECUTIVE OFFICE FOR SERVICE CENTER OPERATIONS

EOSCO Taxpayer Advocate

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FAX (972)308-7166

Northeast Region

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Southeast Region

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Salt Lake City, UT 84111
(801)799-6958
FAX (801)779-6957

Vermont (BURLINGTON OFFICE)
Courthouse Plaza, 199 Main St.,
Burlington, VT 05401
(802)860-2008
FAX (802)860-2006

Virginia (RICHMOND OFFICE)
Box 10113, Rm 5502
Richmond, VA 23240 *or*
400 North 8th St
Richmond, VA 23240
(804)771-2643
FAX (804)771-2008

Washington (SEATTLE OFFICE)
915 2nd Ave Stop W-405
Seattle, WA 98174
(206)220-6037
FAX (206)220-6047

West Virginia (PARKERSBURG OFFICE)
Box 1040, Rm 1004
Parkersburg, WV 26102 *or*
425 Juliana St
Parkersburg, WV 26101
(304)420-6616
FAX (304)420-6682

Wisconsin (MILWAUKEE OFFICE)
310 West Wisconsin Ave.
Rm M-28, Stop 1005-MIL
Milwaukee, WI 53203
(414)297-3046
FAX (414)297-3362

Wyoming (CHEYENNE OFFICE)
5353 Yellowstone Rd., Rm 206A
Cheyenne, WY 82009
(307)633-0800
FAX (307)633-0880

**Taxpayers Living Abroad or in US Territories
(A/C INTERNATIONAL)**
Box 4817, L'Enfant Plaza Station
Washington, DC 20224 *or*
950 L'Enfant Plaza, SW
Washington, DC 20224
(202)874-1930
FAX (202)874-1752

B. GLOSSARY

ACRONYM	DEFINITION
ACS	Automated Collection System
ATAO	Application for Taxpayer Assistance Order
CAF	Centralized Authorization File
CC	Chief Counsel
DMF	Debtor Master File
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
FMS	Financial Management Service
FTD	Federal Tax Deposit
FTF	Failure-to-File Penalty
FY	Fiscal Year
IA	Installment Agreement
IRC	Internal Revenue Code
IDRS	Integrated Data Retrieval System
IMF	Individual Master File
IRC	Internal Revenue Code
MSR	Midstates Region
NER	Northeast Region
PRO	Problem Resolution Officer
PROMIS	Problem Resolution Office Management Information System
PRP	Problem Resolution Program
PRPCIT	Problem Resolution Program Central Inventory Tracking System
QUIPS	Quality Improvement Priority Score
RIS	Request for Information Services
RO	Revenue Officer
SER	Southeast Region
SSN	Social Security Number
TA	Taxpayer Advocate
TAMIS	Taxpayer Advocates Management Information System
TAO	Taxpayer Assistance Order
TBOR2	Taxpayer Bill of Rights Two
TIN	Taxpayer Identification Number
USPS	United States Postal Service
WR	Western Region